

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

COMMITTEE OVERSIGHT INITIATIVE

AGENCY RECOMMENDATIONS FOR IMPROVING EFFICIENCY AND
EFFECTIVENESS OF PROGRAMS WITHIN THE JURISDICTION OF
THE COMMITTEE ON WAYS AND MEANS



APRIL 9, 1991

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PREFACE

During the 102d Congress, the Committee on Ways and Means will conduct a major oversight review of the programs within the Committee's jurisdiction, focusing on the efficient administration of these programs and on their effectiveness in achieving their stated goals.

On December 19, 1990, as part of this oversight initiative, the Honorable Dan Rostenkowski, Chairman, Committee on Ways and Means and the Honorable J.J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means solicited the views of the Comptroller General, the Director of the Office of Management and Budget, departmental secretaries and inspectors general, and other officials operating programs within the Committee's jurisdiction. These officials were asked about the issues and programs that should be addressed as part of the oversight review as well as any recommendations they might have for improving the ability of the Federal Government to meet its responsibilities efficiently and effectively.

This document compiles the responses received by Chairmen Rostenkowski and Pickle.

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ONE HUNDRED FORTY CONGRESS
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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
 WASHINGTON, DC 20515

December 19, 1990

The Honorable Richard G. Darman
 Director
 Office of Management and Budget
 Executive Office Building
 Washington, D.C. 20503

Dear Director Darman:

During the 102nd Congress, the Committee on Ways and Means will conduct a series of hearings to review the efficiency and effectiveness of Federal programs within the Committee's jurisdiction. The Committee's review will encompass all programs within our jurisdiction including Social Security, Medicare, Unemployment Compensation, and administration of our Federal trust funds, trade and tax laws. The Committee's review will focus not only on the efficient administration of programs within its jurisdiction but also on the effectiveness of programs in achieving their stated goals.

In order to determine the areas in which the Committee should focus its attention, we are soliciting your views on the programs and issues that should be addressed during the Committee's review. With that in mind, we are requesting that you provide a list of Federal programs (or components of Federal programs) in which Federal funds are not efficiently used and programs which are not effectively achieving their goals. You should include your opinion of the issues raised in each of the programs listed, the associated costs, and your recommendations, if any, to improve the use of Federal funds for operation of the programs.

In order to plan for the upcoming Congress, we would appreciate your response by January 15, 1991. Your response should be forwarded to the attention of Charles Brain, Assistant Staff Director, Committee on Ways and Means, and Beth Vance, Staff Director, Subcommittee on Oversight. We look forward to your contribution and working with you throughout the 102nd Congress on these issues.

Sincerely,


 J. J. Pickle, Chairman
 Subcommittee on Oversight


 Dan Rostenkowski, Chairman

(VII)

FOR IMMEDIATE RELEASE
TUESDAY, JANUARY 8, 1991

PRESS RELEASE #1
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
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THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES MAJOR OVERSIGHT INITIATIVE FOR THE 102ND CONGRESS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced that a "Focus on Program Efficiency and Policy Effectiveness" will be a major oversight priority for the Committee in the 102nd Congress.

In announcing this initiative, Chairman Rostenkowski stated: "Americans properly demand that their tax money be spent wisely. We in government share their suspicions about money being wasted. Government ought to run a tight ship. We should spend each dollar as prudently as if we were paying the bills personally.

"The public is correctly offended by stories about \$500 coffee-pots and we, their elected representatives, are too. But, we also have a suspicion that millions are being wasted by outdated policies that are honestly administered. We want to look at both of these questions."

The Committee's review will encompass all programs within its jurisdiction, including social security, Medicare, unemployment compensation, the Federal tax system and administration of America's trade laws. The Chairman is soliciting experts in and out of government for advice on specific questions to be addressed.

"We want to be able to tell American taxpayers where their dollars are well spent," Chairman Rostenkowski said, "and we want to report on what policies are working. We also hope that we can identify programs and administrative policies that should be reformed."

Chairman Rostenkowski and Representative J.J. Pickle, Chairman of the Ways and Means' Subcommittee on Oversight, initiated this major oversight review by requesting the Comptroller General, the Director of the Office of Management and Budget, departmental inspectors general and officials operating programs within the Committee's jurisdiction to identify issues that should receive priority attention.

"We are also asking interested organizations and concerned citizens to help us identify areas that deserve greater public scrutiny and reform," Chairman Rostenkowski said.

A specific agenda will be published once these suggestions are received.

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(IX)



United States
General Accounting Office
Washington, D.C. 20548

Office of Program Planning

January 23, 1991

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
House of Representatives

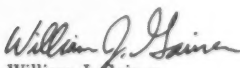
Dear Mr. Chairman:

This letter is our final response to your December 19, 1990, request for information on federal programs within the Committee's jurisdiction which ineffectively use federal funds or which ineffectively carry out their intended missions. In developing this information we drew upon the insights of a wide variety of GAO staff, as well as upon information and expertise developed in carrying out both ongoing and completed work. Many of the identified items currently are under review as part of GAO's "High Risk Area" work.

We have included information on approximately 50 programs, subprograms or issues which may be deserving of your Committee's review and oversight during the 102nd Congress. This information is organized by broad topical areas and we have included narrative or data whenever possible on (1) the problem or issue, (2) the cost of the program or the problem described, (3) recommendations on solution options, (4) questions appropriate for oversight hearings, and (5) a knowledgeable GAO staff contact who can provide additional information or assistance. Also included is a table of contents listing the items for which information is being provided.

Should you have questions regarding the programs and issues described in the enclosure, please call the GAO contact identified in the individual writeups or you may call me at 202-275-6190.

Sincerely yours,


William J. Gainer
Director

Enclosure

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Environmental Protection

Program/Component: Environmental Protection Agency (EPA), Superfund Program

Description of Problem/Issue

The program has accomplished few long-term cleanups (59 of 1,200 sites), has difficulties recovering cleanup costs from polluters, and has contract management problems that increase contractor expenditures when EPA contracts for site cleanup. Also at issue is how to pay for the program in the long term, including how to (1) allocate program costs among the parties associated with Superfund sites, such as federal, state, and local governments, industrial firms, insurers, and lenders, and (2) balance the principle of holding polluters responsible with the need to avoid wasteful litigation.

Associated Costs

The program has been authorized \$15 billion dollars through fiscal year 1994, of which over \$7 billion has been obligated since 1980. Estimated federal costs to clean up all hazardous sites could amount to well over \$100 billion. The costs to nonfederal entities of litigating Superfund liability are unknown but thought to total many billions of dollars.

Options/Recommendations

GAO and others have proposed ways of strengthening enforcement and contract management. Various sources have proposed limitations on liability for cleanup in the interest of fairness or to avoid costly litigation. Some recommend replacing the present system of individual cleanup responsibility with a "no fault" cleanup system funded by special taxes on broad industrial categories.

Hearing Questions

1. What actions does EPA plan to take to accelerate the process of identifying hazardous waste sites and expediting the necessary cleanup work?
2. What can be done to reduce the excessive costs and delays caused by litigation associated with EPA's efforts to recover cleanup costs from responsible parties?

Congressional Customers for Ongoing Work

- Senate Committee on the Budget
- House Committee on Energy and Commerce
- House Committee on Government Operations

GAO Contact: Richard L. Hembra 202-275-6111

Health and Human Services

Program/Component: Department of Health and Human Services, Office of Child Support Enforcement, Child Support Enforcement Program

Description of Problem/Issue

Amounts of child support awards ordered by judges and administrative officers have historically been inconsistent and below estimated costs of raising children. As time passes, the gap between the costs of raising children and the amount of child support awards becomes greater if awards go unmodified for changes in costs. The Family Support Act of 1988 mandated (1) use of state guidelines in establishing and modifying child support orders (effective October 1990) and (2) periodic review and updating of support orders (not required until 1993).

Associated Costs

The gap between child-rearing costs versus child-support awards and custodial parents' income can be a contributing cause of poverty and the need for federal assistance through programs such as Food Stamps, AFDC, and Medicaid. In the spring of 1988, 9.4 million women with children under 21, where the father was not present, were in poverty. Of these women, 3.9 million did not receive child support. A 1985 study indicated that the gap between the amounts due under support orders, versus the costs of raising children, totaled \$15 billion in 1983.

Options/Recommendations

We have no options or recommendations at this time, but plan to conduct work on the impact that state guidelines and periodic reviews of child support orders have on award levels.

Hearing Questions

1. Should the state child support calculation guidelines be subject to national standards on what income and expenses should be used in calculating award amounts?
2. Should there be a prohibition against using outside negotiated agreements on income and expense amounts as input to state calculations of support award amounts?
3. Should there be a minimum child support award level, regardless of the age or circumstances of the noncustodial parent?

Congressional Customer for Ongoing Work

None.

GAO Contact: David P. Bixler 202-275-8610

Health and Human Services

Program/Component: Department of Health and Human Services, Office of Child Support Enforcement, Child Support Enforcement Program

Description of Problem/Issue

Federal expenditures for child support enforcement may be reduced through effective implementation of the mandatory wage withholding requirement.

Associated Costs

Total child support enforcement administrative expenditures during fiscal year 1988 were nearly \$1.2 billion. The federal share of these expenditures was more than \$800 million.

Options/Recommendations

We have no options or recommendations at this time, but plan to conduct work on the effectiveness of mandatory wage withholding in increasing child support collections.

Hearing Questions

1. What progress have the states made in developing their capability to implement mandatory wage withholding for all child support cases?
2. What particular problems with wage withholding are encountered in interstate child support enforcement cases?

Congressional Customer for Ongoing Work

None.

GAO Contact: David P. Bixler 202-275-8610

Health and Human Services

Program/Component: Department of Health and Human Services, Office of Child Support Enforcement, Child Support Enforcement Program

Description of Problem/Issue

Federal expenditures for child support enforcement may be reduced by requiring non-AFDC recipients to pay fees for child support enforcement services.

Associated Costs

In fiscal year 1988, expenditures for child support enforcement services provided for non-AFDC clients totaled \$148 million, whereas states collected only \$7 million in fees from these clients.

Options/Recommendations

We have no options or recommendations at this time, but have ongoing work focused on reviewing fees charged non-AFDC clients for child support enforcement services.

Hearing Questions

1. Should the states charge non-AFDC recipients higher fees for child support enforcement services?
2. To what extent do non-AFDC recipients of child support enforcement services have the ability to pay for such services?

Congressional Customer for Ongoing Work

Subcommittee on Human Resources, House Committee on Ways and Means

GAO Contact: David P. Bixler 202-275-8610

Health and Human Services

Program/Component: Department of Health and Human Services (HHS), Family Support Administration, Job Opportunity and Basic Skills Training Program (JOBS)

Description of Problem/Issue

States report they will have difficulty meeting the JOBS participation rate criteria as defined by HHS. Inability to meet the participation rates prevents the states from receiving the maximum available federal funding and forces them to have smaller, potentially less effective programs.

Associated Costs

In its initial review of the Family Support Act, the Congressional Budget Office estimated that new federal costs associated with the JOBS program will total \$3.3 billion during fiscal years 1989 through 1993. The number of new participants annually is projected to increase from 15,000 in fiscal year 1989 to 360,000 in fiscal year 1993. The total number of JOBS participants projected for fiscal year 1993 is 975,000.

Options/Recommendations

We are completing a study that is yielding information on the status of federal and state implementation of the JOBS program, and we are about to start several follow-on studies that will look at different aspects of JOBS in greater detail. We anticipate this future work will yield recommendations to improve program efficiency and effectiveness.

Hearing Questions

1. Why are states having difficulty meeting JOBS' mandatory participation rates?
2. What alternative criteria would the states apply to assure meaningful program participation?
3. Does focusing on the needs of target populations serve a sufficient number of clients so that states can achieve JOBS' mandated overall participation rates?

Congressional Customer for Ongoing Work

Senate Committee on Finance

GAO Contact: David P. Bixler 202-275-8610

Health and Human Services

Program/Component: Department of Health and Human Services, Family Support Administration, Job Opportunity and Basic Skills Training Program (JOBS)

Description of Problem/Issue

The JOBS program cannot effectively meet its goal--helping families receiving Aid to Families with Dependent Children (AFDC) benefits attain self-sufficiency and avoid long-term welfare dependency--if child care remains a barrier to JOBS program participation.

Associated Costs

HHS estimates that the federal share of child care services, under Title IV-A of the Social Security Act, would be \$489 million in fiscal year 1991. This figure includes the cost of child care for JOBS participants, transitional child care for families that leave AFDC because of employment, and grants to states to improve child care licensing procedures.

Options/Recommendations

We do not have any options or recommendations at this time, but plan to conduct work on the effect of child care provisions on JOBS participation.

Hearing Questions

1. How many individuals are being exempted or deferred from participation in JOBS because appropriate child care is unavailable?
2. How are child care needs assessed by the program and how are parents assisted in finding appropriate child care?
3. What is the effect of federal regulations on the supply of child care?

Congressional Customer for Ongoing Work

None.

GAO Contact: David P. Bixler 202-275-8610

Health and Human Services

Program/Component: Department of Health and Human Services, Social Security Administration (SSA), maintaining accurate earnings records for SSA Retirement and Disability Insurance Programs.

Description of Problem/Issue

The Internal Revenue Service and SSA share mutually beneficial information. In administering their programs and activities, IRS and SSA often need the same information and encounter two common and significant problems: the amount of taxable wages, and the identity of the taxpayer. Both agencies work independently to resolve these types of questions. Their efforts are not well coordinated and the results are not routinely shared. This leads to duplication of efforts, and errors in SSA earnings records that IRS could help correct.

Associated Costs

SSA and IRS spend millions of dollars each year contacting taxpayers to correct problems with their wage reports and tax returns. Precise costs are unknown but involve staff time, mailing, and use of computers. For example, SSA suspends about 6 million wage reports each year because it cannot identify the worker to whom those wages belong.

Options/Recommendations

Agencies could benefit by jointly designing approaches to these common problems and increasing the sharing of information they develop or already have available. Restrictions on the use of tax information may need to be clarified or revised to enhance cooperation.

Hearing Questions

Pursue with SSA and IRS officials how they interpret the restrictions contained in section 6103 of the Internal Revenue Code that govern the use of tax information for social security purposes.

1. What are the boundaries of information available to SSA?
2. In what ways does SSA believe improved access to tax data would enhance the accuracy of its earnings records?
3. What does IRS believe the impact of such action would be on tax administration?

Congressional Customer for Ongoing Work

Subcommittee on Social Security, House Committee on Ways and Means

GAO Contact: Roland Miller 301-965-8925

International Trade

Program/Component: Department of Agriculture, Foreign Agricultural Service, Agricultural Export Programs including the Export Enhancement Program, Export Credit Guarantee Program, and the Targeted Export Assistance and Cooperator Foreign Market Development Programs.

Description of Problem/Issue

Management of these agricultural export programs continues to need improvement. The Foreign Agricultural Service is not adequately documenting major program decisions. Guidance to program participants has not been clear, nor have guidelines been consistently enforced. Inadequate internal control and program evaluation exists. Greater oversight of participants is needed to improve program management and ensure accountability.

Associated Costs

The Export Enhancement Program has cost the U.S. \$3 billion since its inception in 1985. Over \$400 million has been appropriated for the program in fiscal year 1991. The Export Credit Guarantee Programs provide about \$5.7 billion in U.S. government guarantees each year. The Targeted Export Assistance and Cooperator Foreign Market Development Programs are authorized to provide \$235 million for U.S. Government Foreign Market Development activities in fiscal year 1991.

Options/Recommendations

GAO has recommended that the Secretary of Agriculture direct the Administrator of the Foreign Agricultural Service to take the following actions: (1) comply with federal standards for internal controls by adequately documenting major program decisions, including the funding allocation decision process, to clearly show how funding criteria were applied and ranked and the basis for those decisions; (2) conduct more oversight of private sector program participants, to ensure accountability for program funds and compliance with program guidelines; and (3) provide more specific evaluation guidance to the participants and conduct evaluation of the programs and combine all foreign market development programs to facilitate program administration and to maximize program effectiveness.

Hearing Questions

1. What specific internal control systems and procedures are in place to ensure effective and efficient program operation and prevent program abuse and fraud? What criteria govern the funding level of these programs? Is private sector participation in these programs based on fair and objective government criteria? Do large commodity groups and private companies receive the majority of program funds?

2. Have these agricultural export programs (1) produced significant increases in U.S. agricultural exports and (2) made the U.S. more competitive in the world market?

Congressional Customer for Ongoing Work

Subcommittee on Government Information, Justice, and Agriculture, House Committee on Government Operations.

GAO Contact: Allan I. Mendelowitz 202-275-4812.

International Trade

Program/Component: Department of Commerce and State, in consultation with the Department of Defense, Export Control Programs.

Description of Problem/Issue

The historic changes in Eastern Europe and the Soviet Union have stirred debate among our allies on the extent to which Western controls on high technology items should be relaxed. Western European countries are pressing for significant relaxation in export controls. At the same time, concerns are building about technology exports to third world countries, such as Iraq. Past GAO work has demonstrated problems in agency implementation of relevant aspects of export control laws.

Associated Costs

In fiscal year 1988, Commerce's Bureau of Export Administration--which administers the export control system--had a budget of about \$40 million. DOD's Defense Technology Security Administration--which administers the export control system in conjunction with Commerce--had a budget of approximately \$10 million.

Hearing Questions

1. To what extent should national security export controls be loosened at this time? What foreign policy and economic implications would these changes have? How would a substantially reduced control list affect the Bureau of Export Administration's budgetary needs?
2. The Bureau of Export Administration has instituted an electronic licensing system for license applications. How will the implementation of this new system affect the Bureau's future budget needs?
3. The Bureau of Export Administration opened a western regional office in Southern California in 1988 and is opening several other offices. Since these offices have no licensing authority, how have they contributed to the Bureau's efficiency?
4. How successful has the Office of Enforcement been? How many prosecutions, convictions, and fines has the Office made?
5. Should sanctions against South Africa be lifted?
6. How well are foreign policy controls to prevent the proliferation of nuclear, chemical, biological, and missile technology working? Should these controls be strengthened?
7. How well is the balance between promoting exports and safeguarding national security being maintained?

Congressional Customers for Ongoing Work

- Senate Banking Committee
- House Government Operations Committee
- Congressman Les AuCoin

GAO Contact: Allan I. Mendelowitz 202-275-4812.

International Trade

Program/Component: Department of Commerce, International Trade Administration (ITA), Export Promotion Programs. Other agencies involved in export promotion include the Department of State, Agriculture, and the Small Business Administration.

Description of Problem/Issue

Past GAO work has identified significant management and operational problems in Commerce's export promotion programs. The ITA has a top-heavy organization structure consisting of 26 Deputy Assistant Secretary and Assistant Secretary positions. Inadequate program management and evaluation has existed within Commerce's U.S. and Foreign Commercial Service. The Service has encountered significant technical difficulties in implementing a worldwide commercial information management system, has not always complied with departmental regulations in assigning commercial officers to overseas posts, and has inconsistently implemented the recommendations of its internal evaluation unit. In addition, Commerce's export promotion programs are not well coordinated with other government agencies. The effectiveness of State and Small Business Administration programs have not been demonstrated.

Associated Costs

Commerce's ITA's fiscal year 1989 budget was about \$180 million. From fiscal year 1985 through 1989, Commerce spent about \$35 million on its worldwide commercial information management system. The Department of State was not able to provide GAO with an estimate of the funds it spends on export promotion activities. The Small Business Administration spent about \$40 million on export promotion related activities in fiscal year 1989.

Options/Recommendations

GAO has recommended that Commerce improve the efficiency and effectiveness of its export programs by:

- reorganizing ITA to address inefficiencies in the trade promotion program,
- correcting the technical deficiencies found in the U.S. and Foreign Commercial Service's internal evaluation unit and ensuring that its recommendations for improvements are implemented,
- fully documenting any assignment and staffing decisions of commercial officers that do not comply with department regulations, and
- completing an independent technical review of its Commercial Information Management System and ensuring that the completed system complies with the requirements for the National Trade Data Bank.

Hearing Questions

1. Has an underlying rationale for the government's export programs been developed? Why has a disproportionate share of export promotion funds been traditionally devoted to agriculture programs? How can better coordination of these programs be attained?
2. Why does ITA need 26 Deputy Assistant Secretary and Assistant Secretary positions when ITA staffing has declined over the past few years?
3. To what extent have the technical deficiencies GAO found in the U.S. and Foreign Commercial Service's in-house evaluation unit been corrected?
4. What plans does the ITA have to reconfigure its post and staffing structure in light of recent developments in Eastern Europe?
5. What are ITA's current plans for completing its Commercial Information Management System? How much will it cost to complete this system?
6. Why doesn't the State Department have the management capability to separately track its export promotion expenditures--an objective the Department states is a high priority activity at its overseas posts.

Congressional Customers for Ongoing Work

- House Committee on Government Operations
- Senate Commerce Committee
- House Committee on Energy and Commerce

GAO Contact: Allan I. Mendelowitz 202-275-4812.

International Trade

Program/Component: Department of the Treasury with participation by the Department of Defense, Commerce, and State. Committee on Foreign Investment in the United States (CFIUS) Program.

Description of Problem/Issue

The main issue is whether the CFIUS program is effective in safeguarding national security in those areas where it has responsibilities and jurisdiction. The program's major concern is foreign acquisition of companies comprising the defense industrial base. CFIUS is responsible for identifying such acquisitions which might impair national security and recommending appropriate action to the President. However, it deals with individual cases and does not analyze effects on industry sectors.

Associated Costs

The program does not entail significant budgetary costs because most of the participants have other primary duties within their agencies and attend to CFIUS matters on a part-time basis as needed. However, the issues dealt with do represent significant national security concerns.

Options/Recommendations

GAO has suggested that broader issues, such as the effects of foreign direct investment on U.S. commercial competitiveness, in industries critical to national security, should be addressed at a higher policy-making level, and in a broader context than the case-by-case approach provided by CFIUS.

Hearing Questions

1. What is the appropriate forum, and what authorities and responsibilities are needed, to assess and deal with the effects of foreign investment in sectors vital to national security?
2. Should CFIUS be modified to help ensure that foreign acquisitions of companies within the defense industrial base will not lead to loss of technological leadership?

Congressional Customer for Ongoing Work

House Committee on Energy and Commerce.

GAO Contact: Curtis F. Turnbow 202-275-5429.

Medicare

Program/Component: Administration of Medicare

Description of Problem/Issue

Medicare has paid Part B claims that more appropriately should be paid by other insurers. Potential mistaken payments could be as much as \$200 million. Funds needed to recover overpayments have been cut and no significant actions to recover identified overpayments are occurring.

Associated Costs

Not yet determined, but additional funding will be required.

Options/Recommendations

Not yet determined.

Hearing Questions

1. What are the issues surrounding the identification and recovery of these funds.
2. To what extent are Medicare's secondary payer activities consistent from region to region?
3. To what extent have the secondary payer activities declined with resource and budget cutbacks?
4. To what extent will the existing backlog of mistaken payments be compounded by the proposed IRS/Social Security data match? What is HCFA doing to address this issue?
5. Are further administrative or legislative actions needed to enhance Medicare's secondary payer activities?

Congressional Customer for Ongoing Work

Senate Committee on Finance

GAO Contact: Terence Davis 202-426-0808

Medicare

Program/Component: Administration of Medicare

Description of Problem/Issue

Hospitals may be retaining money that should be refunded to Medicare or other insurers.

Associated Costs

Not yet determined.

Options/Recommendations

Not yet determined.

Hearing Questions

1. Does HCFA have an administrative procedure to identify and collect retained funds?
2. To what extent are these retained funds identified by audits?
3. Is there a systematic way to improve the identification and collection of these funds?

Congressional Customer for Ongoing Work

Senate Committee on Finance

GAO Contact: Terence Davis 202-426-0808

Medicare

Program/Component: Administration of Medicare

Description of Problem/Issue

Medicare intermediaries may be processing claims inaccurately in an effort to meet claims processing deadlines. There potentially may be large dollar savings associated with this issue.

Associated Costs

Not yet determined.

Options/Recommendations

Not yet determined.

Hearing Questions

Not yet determined.

Congressional Customer for Ongoing Work

None.

GAO Contact: Terence Davis 202-425-0808

Medicare

Program/Component: Administration of Medicare

Description of Problem/Issue

Medicare cost-based providers that are paid about \$23 billion a year (1) may not be audited comprehensively and (2) may not submit accurate cost reports to Medicare. On the basis of our work to date, we estimate that potential savings of up to as much as \$100 million in interest on wrongly accumulated funds could be recovered.

Associated Costs

Not yet determined.

Options/Recommendations

Not yet determined.

Hearing Questions

1. Characterize the issues (1) impeding the submission of appropriate cost reports and (2) complicating audits and recovery of information.
2. To what extent are legislative or administrative actions needed to address these issues?

Congressional Customer for Ongoing Work

Senate Committee on Finance

GAO Contact: Terence Davis 202-426-0808

Medicare

Program/Component: Administration of Medicare

Description of Problem/Issue

Complaints from Medicare beneficiaries identifying potentially fraudulent provider billings may not be fully investigated.

Associated Costs

Not yet determined.

Options/Recommendations

Not yet determined.

Hearing Questions

1. Is there a standardized, effective process employed by all carriers and intermediaries to address beneficiary complaints regarding fraud, waste, and abuse?
2. To what extent are beneficiary complaints incorporated into the contractors' internal program management activities such as utilization reviews, the Medicare secondary payer program, and provider audits?
3. How does HCFA monitor the contractors? Does this oversight vary by region?

Congressional Customer for Ongoing Work

Senate Special Committee on Aging

GAO Contact: Terence Davis 202-426-0808

Medicare

Program/Component: Administration of Medicare, Medicare Part A Payment Issues

Description of Problem/Issue

Medicare's Prospective Payment System (PPS) pays teaching hospitals more than other hospitals for treating comparable patients in recognition of the direct and indirect costs of medical training. Our analysis has shown that indirect medical education payments are too high and overcompensate hospitals. The associated program savings depends on the extent of the adjustment but could range from \$800 million to \$1 billion annually.

Associated Costs

No direct costs.

Options/Recommendations

As discussed in Medicare: Indirect Medical Education Payments Are Too High, (GAO/HRD-89-33, Jan. 1989), the Medicare indirect medical adjustment should be lowered.

Hearing Questions

1. What is the justification for the indirect medical education payments and reasons to lower such payments?

Congressional Customer for Ongoing Work

None.

GAO Contact: Thomas G. Dowdal 301-965-8021

Medicare

Program/Component: Administration of Medicare, Medicare Part B Payment Issues

Description of Problem/Issue

Because of technical issues involved in the calculation methodology, Medicare's payments of ambulatory surgery in hospital outpatient departments are too high. This inflates the beneficiary's coinsurance amount as well. The way in which a change is implemented will determine whether the savings accrue to the program, the beneficiary, or both.

Associated Costs

No direct costs.

Options/Recommendations

GAO recommends a change in Medicare's payment methodology. Three alternatives for changing Medicare's payment rate for ambulatory surgery in outpatient departments are discussed in Medicare: Alternatives for Computing Payments for Hospital Outpatient Surgery, (GAO/HRD-90-78, Apr. 1990).

Hearing Questions

1. What are the inconsistencies in the calculation of the existing payment rate?
2. What are the alternatives for changing Medicare's payment rate for ambulatory surgery in outpatient departments?

Congressional Customer for Ongoing Work

None.

GAO Contact: Terence Davis 202-426-0808

Pensions and Welfare

Program/Component: Department of Labor, Pension and Welfare Benefits Administration; Multiple Employer Welfare Arrangements (MEWAs)

Description of Problem/Issue

States are claiming that the Department of Labor is not providing adequate oversight of MEWAs, which provide health insurance to employees of many small companies. There have been numerous complaints of MEWAs failing to pay claims for health care.

Associated Costs

Data on the extent of MEWA coverage is not available. However, millions of dollars in unpaid claims have been reported.

Options/Recommendations

Legislation has been proposed to have MEWAs register with the Department of Labor so it could be aware of, and advise the states of, the existence of MEWAs before problems occur. Changes in ERISA to clarify states' authority over MEWAs may also be needed.

Hearing Questions

1. What has the Labor Department done to address complaints that it has not been responsive to states' requests for assistance in dealing with MEWAs?
2. Does the Department believe that ERISA needs to be amended to clarify the states' authority over MEWAs?
3. What is the Department doing to deal with MEWA problems aside from assisting states?

Congressional Customer for Ongoing Work

- Subcommittee on Oversight, Committee on Ways and Means
- Subcommittee on Retirement Income and Employment, House Select Committee on Aging

GAO Contact: Bob Hughes 202-535-8358

Pensions and Welfare

Program/Component: Pension Benefit Guaranty Corporation (PBGC), Pension Insurance Premium Collection

Description of Problem/Issue

PBGC's system for overseeing pension insurance premium collections is inadequate. There is no assurance that premiums are paid by all who should pay them or that the amounts paid are correct.

Associated Costs

Premium collections were \$624 million in 1989.

Options/Recommendations

Planned work not yet started.

Hearing Questions

1. When does PBGC expect to have its automated system for premiums operating effectively?
2. How does PBGC plan to determine whether correct variable premium payments are made for underfunded plans?

Congressional Customer for Ongoing Work

None.

GAO Contact: Bob Hughes 202-535-8358

Pensions and Welfare

Program/Component: Pension Benefit Guaranty Corporation (PBGC), Private Insurance Annuities

Description of Problem/Issue

Many pension plans purchase annuities from private insurance companies to pay the retirement benefits when their workers retire. Also, annuities are purchased to cover the benefits of plan participants for many fully funded plans that terminate. What happens to the retirement benefits--the annuities--of retirees should the insurance company issuing the annuity fail? Liabilities of insurance companies are generally backed by state-sponsored guarantee funds. However, it is not clear that the state-guarantee funds have sufficient assets to cover the failure of a major insurance company. PBGC does not collect a premium to cover these retiree annuitants, and it is unclear whether PBGC would be ultimately responsible for paying benefits to these annuitants should both an insurance company and state-guarantee fund fail.

Associated Costs

The number of retiree annuitants is unknown, but is believed to exceed one million. GAO has not estimated the potential liability to PBGC of covering retiree annuitants.

Options/Recommendations

Unknown at this time.

Hearing Questions

1. Does PBGC have responsibility for insuring retiree benefits that have been converted to private insurance annuities?
2. If it is determined that PBGC has such a responsibility, what are the potential liabilities it may face from failures in the insurance industry and state-guarantee funds?

Congressional Customers for Ongoing Work

Senate Committee on Banking, Housing, and Urban Affairs

GAO Contact: Don Snyder 202-535-8358

Pensions and Welfare

Program/Component: Pension Benefit Guaranty Corporation (PBGC) Underfunded Pension Plans

Description of Problem/Issue

PBGC insures benefits of most defined benefit pension plans. While most plans are fully funded, some are not. Total underfunding for these plans is estimated to be in the \$20-30 billion range. Factors that increase plans' underfunding or that increase the probability that underfunded plans will terminate increase PBGC's exposure. If enough underfunded plans terminate, PBGC may not be able to pay all the benefits it insures, necessitating a bailout from the U.S. Treasury or a loss of benefits for the retirees it serves.

Associated Costs

PBGC has a current net liability (excess of claims over assets) of about \$1.7 billion. It insures approximately \$820 billion in defined benefit pension plan benefits. Only \$20-30 billion of the insured benefits are not currently funded and pose an immediate potential liability to PBGC.

Options/Recommendations

In recent years, Congress has passed several laws strengthening plan funding as recommended by GAO (GAO/HRD-87-42 and GAO/HRD-88-28) to reduce PBGC's potential liability. Further changes may be necessary, especially in the areas of minimum required contributions and funding of shutdown benefits.

Hearing Questions

1. What are the major factors that put PBGC at risk?
2. Which factors have the greatest impact on PBGC's current liability, and what can be done to minimize the effects of these factors?

Congressional Customer for Ongoing Work

Subcommittee on Employment and Housing, House Committee on Government Operations

GAO Contact: Don Snyder 202-535-8358

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Accounts Receivable

Description of Problem/Issue

There has been continued growth in IRS' accounts receivable resulting from (1) charging accounts receivable with amounts not owed because of erroneous or duplicate assessments, or because they have already been paid and (2) IRS' inability to develop and implement an effective strategy for collecting amounts that are owed. IRS' accounting and management information processing systems are contributing to the problem because they have not been effective in (1) identifying the reasons for and preventing inappropriate charges to accounts receivable that cause IRS to waste staff resources correcting errors and pursuing erroneous receivables; (2) identifying the characteristics of delinquent taxpayers so IRS can more appropriately target its efforts to prevent, identify, and collect delinquent taxes; and (3) evaluating the relative effectiveness of IRS' various collection programs and tools.

Associated Costs

As of September 30, 1990, the reported receivables balance was \$96 billion. IRS' fiscal year 1991 budget provided for \$933.7 million and 21,811 staff years for collection activities.

Options/Recommendations

IRS needs to (1) determine the real value of the accounts receivable (GAO/T-GGD-90-19, February 20, 1990); (2) develop collection goals that include well-defined time frames, financial targets, and an aggressive, service-wide approach to reducing accounts receivable (GAO/T-GGD-90-60, August 1, 1990); (3) examine collection staff productivity (GAO/T-GGD-90-60, August 1, 1990); (4) improve financial and management information systems (GAO/T-GGD-90-60, August 1, 1990); and (5) simplify the Federal Tax Deposit System (GAO/GGD-90-101, July 31, 1990).

Work is currently underway or planned to address the above problems including reviews of (1) employment tax delinquencies; (2) accounts expiring due to the statute of limitations; (3) the systems IRS uses in determining the priority for working delinquent accounts and allocating staff; (4) alternative collection strategies; and (5) the appropriateness of abatements.

Hearing Questions

1. How much of the accounts receivable balance represents amounts that are actually owed and collectible?
2. What is IRS' strategy for reducing the accounts receivable balance over the next 12 months?

Congressional Customer for Ongoing Work

Subcommittee on Oversight, House Committee on Ways and Means

GAO Contact: Cornelia Blanchette 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Amortization of Intangible Assets

Description of Problem/Issue

Generally, taxpayers can systematically deduct, or amortize, the cost of purchasing an intangible asset in determining taxable income if they can (1) determine the useful life of the asset and (2) completely separate the asset from goodwill, which is an intangible asset arising from the reputation of a business and its relations with its customers. Billions of dollars of taxpayer deductions, and therefore tax revenue, are affected by taxpayers' decisions about intangible assets. IRS can only question these decisions when taxpayers are audited. Frequently, based on audit findings, IRS does question taxpayers' judgement. When this occurs, the disagreements between IRS and taxpayers are settled through the IRS appeals process or litigation in the courts. Either avenue is time-consuming and costly for IRS and the taxpayers.

Associated Costs

Although GAO cannot determine the cost associated with this problem, we believe that there could be billions of dollars in lost revenue resulting from inappropriate taxpayer determinations. In addition, litigation arising from disagreements with taxpayers is costly for IRS.

Options/Recommendations

Our work is incomplete, and we are still considering various options.

Hearing Questions

1. What is IRS' audit coverage for tax returns, including amortization deductions?
2. How much does IRS spend on litigating cases involving amortization of intangible assets?
3. What has been IRS' success rate when intangible asset amortization cases have been litigated?

Congressional Customer for Ongoing Work

Joint Committee on Taxation

GAO Contact: Cornelia Blanchette 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Coordinated Examination Program

Description of Problem/Issue

IRS may be losing its ability to assure that the nation's largest and most complex corporations pay their fair share of taxes. One reason may be that IRS does not have enough trained and experienced revenue agents in its Coordinated Examination Program (CEP) to effectively examine the tax returns of major corporations.

Associated Costs

The 1,500 corporations in CEP account for about 65 percent of the \$110+ billion in income taxes paid by corporations of all sizes. They also account for over 70 percent of the corporate tax gap. Every year IRS recommends that the corporations in CEP pay an additional \$7-\$10 billion in taxes. However, corporations successfully appeal most of these recommended taxes.

Options/Recommendations

GAO has not determined what, if any, actions to change the CEP are justified. Other organizations have suggested (1) simplifying the tax code so that IRS revenue agents can more easily determine corporations' tax liability (2) providing more training to IRS revenue agents, and (3) paying revenue agents more money to assure they do not leave IRS. IRS recently initiated changes to the CEP that will provide more centralized policy direction and involve IRS' counsel earlier in examinations.

Hearing Questions

1. Will the recent legislation to increase federal pay in high-cost-of-living cities help IRS retain its most experienced revenue agents?
2. What are the most important areas of the tax code that, if simplified, would help IRS administer the CEP?
3. Will the changes IRS initiated resolve the problems?

Congressional Customer for Ongoing Work

A request from a Senate committee is pending.

GAO Contact: Al Stapleton 202-272-7904.

Tax Policy and Administration

Program Component: Department of the Treasury, Internal Revenue Service,
Criminal Investigation

Description of Problem/Issue

Recent hearings on IRS integrity issues disclosed problems with a 1985 undercover operation, called Project Layoff, in which IRS agents set up and operated a Las Vegas bookmaking operation to infiltrate organized crime. The problems associated with Project Layoff raised concerns about IRS' overall management of its undercover operations.

Associated Costs

IRS' undercover operations cost about \$2 million per year. However, the cost associated with IRS' credibility as a law enforcement organization is immeasurable. Willingness to voluntarily comply with the tax system relies heavily on the public's confidence that IRS has adequate control and oversight over sensitive law enforcement programs and the perception that each IRS employee is held to the highest standard of professional conduct.

Options/Recommendations

None at this time.

Hearing Questions

1. What does IRS do to ensure that it has adequate management control and oversight to assure that another Project Layoff is unlikely to occur?
2. What changes is IRS making to improve the management of its undercover operations?
3. How does IRS plan to ensure that agents are adequately informed and trained about ethical considerations associated with undercover activities?

Congressional Customers for Ongoing Work

Senators Harry Reid and Richard Bryan

GAO Contact: John Lovelady 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Enforcement Programs (Examination, Collection, and Information Returns Program)

Description of Problem/Issue

IRS' estimates of the revenue generated by its enforcement programs have been unreliable over the years due to problems with the estimating methodology, the underlying assumptions, and the quality of program data on which the estimates are based. Consequently, the Congress and the administration lack reliable information on how much revenue they can reasonably expect each of the enforcement programs to generate at various levels of staffing, and how soon they can expect this revenue to come into the Treasury. IRS also has unreliable data on the amount of revenue its enforcement activities actually generate. Without such data, IRS cannot make informed decisions about how to efficiently use its staffing resources to maximize revenues and Congress cannot make informed decisions on administration requests for additional IRS enforcement staff.

Associated Costs

IRS has proposed and received funding for enforcement staffing initiatives aimed at generating increased revenues. In fiscal year 1991, for example, Congress authorized about 3,600 additional enforcement staff for IRS--an increase that IRS estimated will generate about \$9.5 billion in additional revenue over the next 5 years. CBO estimated that the staffing increase would only generate \$4.3 billion over that time--\$5.2 billion less than IRS.

Options/Recommendations

IRS has expressed its intent to improve its enforcement revenue data and has various projects underway or planned toward that end. Until IRS starts generating more reliable data, Congress should use conservative revenue assumptions in deliberating on future enforcement staffing increases. Furthermore, Congress should closely oversee IRS' progress in improving its enforcement revenue data.

Hearing Questions

1. What is the current status of IRS' efforts to develop and implement the Enforcement Management Information System (EMIS)? Will EMIS generate data on all enforcement cases--Examination, Collection, and Information Returns Program cases? What kind of system has IRS established for tracking the revenue results of enforcement staffing initiatives?

Congressional Customer for Ongoing Work

Senate Committee on the Budget

GAO Contact: Dave Attianese 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Examination Program

Description of Problem/Issue

Employers are misclassifying their employees as independent contractors to avoid paying employment taxes.

Associated Costs

The IRS estimates that \$1.886 billion was lost in tax year 1989 due to misclassification of workers, of which \$146 million is directly attributable to section 530 of the Revenue Act of 1978. This section restricts IRS' authority to prospectively reclassify employees who have been misclassified.

Options/Recommendations

Congress should repeal legislation that restricts IRS' authority to prospectively reclassify employees who have been misclassified as independent contractors.

Hearing Questions

1. Is the problem of misclassification growing?
2. Aside from repealing a portion of section 530, what else can be done to assure employers pay their fair share of employment taxes?
3. Should the \$50 penalty be increased for employers who fail to file required information returns on payments they make to independent contractors?

Congressional Customer for Ongoing Work

None.

GAO Contact: Al Stapleton 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms (BATF), Excise Tax Compliance

Description of Problem/Issue

BATF's Office of Compliance Operations has assumed several new responsibilities, including collecting special occupational taxes on businesses that sell alcohol, tobacco, and firearms. In fiscal year 1990 BATF did about 70 percent more special occupational tax inspections than alcohol excise tax inspections (1,700 versus 1,000 inspections, respectively). The special occupational tax inspections produced \$1.1 million in additional revenues (\$647 per inspection) while excise tax inspections produced \$1.9 million in additional revenues (\$1,900 per inspection). In addition, Compliance's auditor staff has been shifted to work primarily on Law Enforcement cases, leaving inspectors with less financial expertise responsible for tax compliance inspections. We cannot determine the impact of these changes on excise tax compliance because BATF does not periodically study compliance levels with the excise taxes it administers. However, higher tax rates established by the 1990 Omnibus Budget Reconciliation Act increase the importance of ensuring taxpayer compliance.

Associated Costs

For fiscal year 1991, the Congress appropriated BATF almost \$302 million and 4,073 staff years. BATF is responsible for ensuring proper payment of over \$10 billion in excise taxes annually. In fiscal year 1990, BATF collected \$5.75 billion in alcohol excise taxes, \$4.2 billion in tobacco excise taxes, and \$130 million in special occupational taxes. BATF assumed responsibility for collecting firearms and ammunition excise taxes (which generated about \$50 million in fiscal year 1990) from IRS in fiscal year 1991.

Options/Recommendations

BATF could better ensure excise tax compliance if it (1) halted the downward trend in alcohol tax compliance inspections by decreasing its emphasis on special occupational tax collections, (2) focused more accounting expertise on its tax compliance examinations, and (3) periodically studied excise tax compliance levels to determine the effectiveness of its inspection efforts.

Hearing Questions

1. Given that alcohol tax compliance inspections provide more revenue per inspection, why has BATF focused more inspection efforts on special occupational taxes than on collecting alcohol excise taxes?
2. What is the effect of a reduced presence at alcohol producing facilities? How does BATF measure this effect since it does not periodically measure taxpayer noncompliance?

Congressional Customer for Ongoing Work

Oversight Subcommittee, House Ways and Means Committee

GAO Contact: Susan Ragland 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Federal Motor Fuel Excise Taxes.

Description of Problem/Issue

Considerable profit can be made by evading the federal motor fuels taxes. Accordingly, evasion schemes have plagued these taxes for years. The Tax Reform Act of 1986 addressed the problem by moving the collection point for both taxes higher in the distribution chain. It is unclear whether this change, which became effective in 1988, has materially reduced the potential for evasion or whether evasion is a significant problem. The Justice Department recently estimated evasion to be more than \$1 billion per year, or about 7 percent of the amount raised in 1989. On the other hand, some IRS and other officials, using the best data believed available, estimate that the federal government is collecting more tax than it should, or that the evasion problem is fairly small.

Until the 1990 Omnibus Budget Reconciliation Act, all of these taxes went to the Federal Highway Trust fund administered by the Federal Highway Administration (FHWA). The 1990 act increased the excise taxes 5 cents per gallon and allocated half of the additional revenues to the general fund of the Treasury.

Associated Costs

Excise tax collections totalled \$14.3 billion in 1989. The 5 cent per gallon increase is expected to increase collections by approximately \$5 billion. However, the tax increase also increases potential evasion profits by about 50 percent. We do not know how much IRS expends to administer these taxes.

Options/Recommendations

None.

Hearing Questions

1. Why did IRS recently decide not to include gasoline and diesel excise taxes in a planned Taxpayer Compliance Measurement Program for excise taxes? What alternative does IRS plan to use to determine the extent of compliance?
2. IRS recently decided to increase excise tax examination staffing by 150. What portion of this staff will be devoted to motor fuels excise taxes and what strategy will be employed to effectively target these additional resources on compliance problems?
3. When will IRS have data demonstrating the effectiveness of the collection point changes mandated by the 1986 act?

Congressional Customers for Ongoing Work

Congressmen Thomas J. Downey and Raymond J. McGrath

GAO Contact: Michael Brostek 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Federal Tax Deposits

Description of Problem/Issue

Federal tax deposits (FTD) are made by employers who withhold federal taxes each payday. FTD requirements are complex, contain unnecessary exceptions, and are hard to understand. This may partly account for nearly one-third of employers being assessed at least one FTD penalty annually. The variable deposit requirements and exceptions to them may also make it difficult for IRS to administer the penalties. In 44 percent of 75 manually-assessed penalty cases we examined, IRS examiners miscalculated the flat rate penalty, mainly by improperly applying the deposit requirements. Many computer-generated deposit penalties were wrong in 1988 because the IRS FTD coupon (Form 8109) did not contain information needed to determine the deposits' accuracy.

Associated Costs

In fiscal year 1988 IRS penalized about 32 percent of employers a total of \$2.6 billion.

Options/Recommendations

Treasury should simplify FTD requirements. We recommend (GAO/GGD-90-102) that Treasury require all employers to deposit employment taxes within some specific time after each payday, such as within 3 banking days. If necessary, an exception could be made for small employers. For example, 89 percent of the employers--those with \$30,000 or less in tax deposits per quarter--could be permitted to file quarterly, and still save \$100 million in federal borrowing costs over the current process.

Hearing Questions

1. In May 1990, IRS requested comments to simplify the FTD requirements, including eliminating the 95 percent safe haven provision. The January 1991 proposed rules do not address either issue and perhaps add complexity. Why was IRS unable to achieve meaningful simplification such as that recommended by GAO?
2. Why don't the proposed rules include a look back procedure so that employers would know their deposit requirement before the start of a quarter?

Congressional Customers for Ongoing Work

None.

GAO Contact: Michael Brostek 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Information Returns Program

Description of Problem/Issue

IRS receives information returns when banks and other organizations make payments to individuals but not to corporations. Corporations do not report some of these payments on their tax returns, which results in a tax loss. The five types of payments are interest, dividends, rents, royalties, and capital gains.

Associated Costs

In 1987, IRS told the Congress that an estimated \$1.1 billion a year in taxes were not paid because corporations did not report interest and dividend payments on their tax returns. More recent estimates range from \$300 million to \$8 billion. GAO reports have discussed the benefits of a business information returns program (GAO-GGD-90-38 and GAO-GGD-88-102).

Options/Recommendations

One option would be to enact legislation to require information returns on payments to corporations so that IRS can begin a computer matching program.

Hearing Questions

1. How much additional revenue can be expected from requiring information reporting on payments to corporations?
2. What kinds of costs would be incurred by IRS and the business community?

Congressional Customer for Ongoing Work

Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations

GAO Contact: Al Stapleton 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Information Returns Program

Description of Problem/Issue

A 1985 IRS study found 11 percent of people with seller-financed mortgages were not correctly reporting the mortgage interest on their tax return. IRS cannot begin a computer matching program to pursue these cases because federal law does not authorize IRS to require the buyer to report the seller's social security number.

Associated Costs

Buyers deducted about \$6.4 billion in seller-financed mortgage interest on their 1989 tax returns. IRS does not know the amount of the seller-financed mortgage tax gap. If the 11 percent noncompliance rate IRS found in its 1985 study has not changed, the tax gap for 1989 could range from \$129 to \$200 million.

Options/Recommendations

The Congress should enact legislation that authorizes IRS to require buyers to report sellers' social security numbers. If enacted, IRS should begin a computer matching program to pursue taxpayers who do not report all interest income on their tax returns.

Hearing Questions

1. Does the administration agree that the proposed legislation is needed?
2. Are there other payments where IRS has the legislative authority to require one taxpayer to report another taxpayer's social security number? If so, has this practice improved compliance?

Congressional Customer for Ongoing Work

A request from a Senate subcommittee is pending.

GAO Contact: Al Stapleton 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Information Returns Program

Description of Problem/Issue

IRS' key computer matching program to identify people who do not report all of their income needs to be more efficient. Because of various problems with the tax or information returns used in matching, IRS pursues a high number of cases where no additional taxes are owed.

Associated Costs

IRS spends about \$100 million a year to pursue cases from the computer matches that appear to have not reported all income. Historically, the percent of these cases that IRS finds to be unproductive (i.e., no additional taxes owed) has ranged from 40 to 60 percent. If the program were more efficient, IRS could pursue more cases where additional taxes are owed.

Options/Recommendations

GAO has not determined what, if any, actions to improve the efficiency of the program are justified. GAO is currently considering several options.

Hearing Questions

1. Could new legislation make the program more efficient?
2. Has the amount of IRS resources devoted to this program increased in recent years?
3. What changes could IRS make to computer matches to make them more efficient?

Congressional Customer for Ongoing Work

Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations

GAO Contact: Al Stapleton 202-272-7904

Tax Policy and Administration

Program Component: Department of the Treasury, Internal Revenue Service,
Integrity Program

Description of Problem/Issue

Recent hearings on IRS senior employee misconduct raised questions about IRS' ability to manage employee ethics and integrity programs. Particular concerns surfaced about (1) IRS' ability to detect, investigate, and discipline misconduct by its senior managers, and (2) IRS' environment for reporting misconduct without fear of retaliation.

Associated Costs

Specific monetary costs are not quantifiable.

Options/Recommendations

None at this time.

Hearing Questions

1. Do IRS ethics and integrity programs provide reasonable assurance that ethical problems and integrity abuses will be less likely to occur in the future?
2. What steps is IRS taking to enhance its ethics and integrity programs?
3. What is IRS doing to create a climate whereby employees are free to report misconduct without fear of retaliation?

Congressional Customers for Ongoing Work

Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations

Subcommittee on Private Retirement Plans and Oversight of IRS, Senate Committee on Finance

GAO Contact: John Lovelady 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
International Division

Description of Problem/Issue

Some members of the Congress are concerned that foreign-controlled firms may be using improper transfer pricing methods that reduce taxable U.S. income and, therefore, taxes paid.

Associated Costs

Taxes foregone because of transfer pricing practices exacerbate the budget deficit, and may increase the competitiveness of foreign-controlled companies vis-a-vis domestic companies.

Options/Recommendations

Preliminary findings point to the following areas for improvement: IRS' management of transfer pricing cases, including staffing, budgeting, and information systems for tracking audit issues.

Hearing Questions

1. How is IRS' national office guiding and monitoring the performance of the district offices in auditing the extent of compliance of foreign-controlled corporations with transfer pricing regulations?
2. How is IRS measuring the effect of the additional resources that the international division received as a result of the congressional hearings on transfer pricing?
3. What restrictions are imposed by advanced determination rulings upon IRS' ability to audit future corporate tax returns?
4. Has the IRS refined its analysis of 1986 SOI data to determine why foreign-controlled corporations face lower tax liabilities than similarly situated U.S. corporations? Is this phenomenon true for all industries and for all asset sizes? Do long-established, foreign-controlled corporations pay more taxes than recently established, foreign-controlled corporations?
5. What is IRS' estimate of the potential number of cases and dollar amounts in transfer pricing cases involving foreign-owned companies?

Congressional Customer for Ongoing Work

Ranking Minority Member, Senate Committee on Foreign Relations

GAO Contact: Jose Oyola 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Luxury Excise Taxes.

Description of Problem/Issue

The 1990 Omnibus Budget Reconciliation Act levied taxes on cars, boats, airplanes, jewelry and furs that exceed specified values. Several issues arise in relation to their optimal implementation: (1) how to minimize difficulties in their administration, (2) how to collect them efficiently, (3) how to determine whether any comparable luxury items should be taxed to avoid substitution, and (4) when the taxes should apply to new items and when they should also apply to used items. Although the luxury taxes were intended, at least in part, to "tax the rich," the distributional consequences are unclear and at least some of the burden will likely fall on industries and employees therein.

Associated Costs

The taxes on these five luxury items are expected to raise \$1.5 billion over 5 years, with the tax on luxury automobiles over \$30,000 in value anticipated to contribute the greatest amount of revenue. We do not know what it will cost IRS to administer these taxes.

Options/Recommendations

Not yet determined.

Hearing Questions

1. What does IRS anticipate the evasion rate will be for these taxes? What actions does IRS plan to ensure compliance?
2. What does IRS estimate its administrative costs and net collections will be for each luxury tax? How will IRS minimize the compliance costs for taxpayers required to pay these taxes? Will IRS work with states in administering them?
3. What was IRS' experience in administering similar luxury taxes before their 1960s repeal? What difficulties were encountered?

Congressional Customer for Ongoing Work

None.

GAO Contact: Michael Brostek 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Management

Description of Problem/Issue

GAO has reported critical management challenges facing IRS including the need to (1) better plan and direct its information systems modernization effort, (2) address the deterioration of its ability to attract and retain a quality workforce, (3) strengthen management of financial systems to resolve significant internal control problems, (4) devise an effective approach to ensure that a "quality first" mindset permeates the agency's culture, and (5) ensure more rigorous evaluation of field operations to improve uneven performance and ensure uniform and equitable treatment for all taxpayers. As recognized in GAO's report, those challenges cannot be conquered quickly. They require a well-formulated, long-term strategy and sustained attention by IRS management. (GAO/GGD-89-1, Oct. 14, 1988).

Associated Costs

IRS' annual appropriation now exceeds \$6 billion a year. By addressing the issues raised in our 1988 report, IRS can expect to operate more efficiently and effectively. We are in no position, however, to estimate the costs associated with existing inefficiencies.

Options/Recommendations

To help IRS meet the challenges specified in our October 1988 report, GAO made over 40 recommendations. Some of the recommendations, such as those calling for the appointment of a Chief Financial Officer and a Chief Information Officer have been implemented; others are still being worked on. Some of the recommendations, such as those directed at development of an agencywide performance measurement system, will take several years before they are fully implemented.

Hearing Questions

1. How far has IRS progressed in implementing the various recommendations in GAO's October 1988 report?
2. How will the changes being made in response to that report help IRS improve its performance in various areas that have been the subject of recent congressional concern, such as accounts receivable, audit coverage, and the tax gap?

Congressional Customer for Ongoing Work

Senate Committee on Governmental Affairs

GAO Contact: David Attianese 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service (IRS),
Refund Offset Program

Description of Problem/Issue

Congress authorized IRS to offset taxpayers' federal tax refunds for nonpayment of certain nontax debts. Initially, the program was aimed at collecting delinquent child and spousal support payments. The program was later expanded to include the nonpayment of federal nontax debts such as education loans. Authorization for offsetting federal nontax debts expires in 1994.

IRS is concerned that offsetting tax refunds for nonpayment of nontax debts leads to a reduction in future compliance with the tax laws. Specifically, IRS studies have indicated that the offset program decreases filing and payment of taxes.

Associated Costs

There is a potential revenue loss as a result of any reduced taxpayer compliance. This cost must be weighed against the collection of debts that might otherwise go uncollected. The Department of the Treasury reports that IRS collected about \$3.2 billion in delinquent debts during the period 1982 through 1989. Approximately \$2.3 billion of this amount was collected for the nonpayment of child and spousal support. The remaining \$0.9 billion was collected during calendar years 1986 through 1989 for nonpayment of federal nontax debts.

Options/Recommendations

None at this time; GAO work is ongoing.

Hearing Questions

1. Does the reported noncompliance vary by types of debt or by taxpayers' income levels?
2. Has IRS attempted to measure the specific loss in revenue due to any increased nonfiling and nonpayment of taxes?

Congressional Customer for Ongoing Work

Joint Committee on Taxation

GAO Contact: Tom McCool 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Returns Processing

Description of Problem/Issue

Between 14 and 21 percent of the IRS staff years devoted to processing tax returns were spent looking for and correcting errors. About 10 percent of the individual income tax returns processed in 1990, for example, had to be sent to error resolution units to correct mistakes made by service center staff in processing the returns. Another 7 percent had to be corrected because of errors by taxpayers in preparing the returns. Particularly troublesome is the fact that many of the service center and taxpayer errors are chronic--recurring year after year in large numbers. Electronic filing is one program that has helped improve processing quality and timeliness, but that mechanism was used to file only 4.2 million of the 111 million individual returns processed as of August 31, 1990 (GAO/GGD-89-1, Oct. 14, 1988).

Associated Costs

IRS' 10 service centers process about 200 million tax returns (including about 111 million individual tax returns) a year. For fiscal year 1991, IRS requested \$1.1 billion and 25,718 average positions for its returns processing function.

Options/Recommendations

IRS needs to do a better job of using quality review results to identify and correct systemic processing problems. It also needs to do a better job of marketing electronic filing and making it available to more filers.

Hearing Questions

1. What systemic problems is IRS experiencing in processing returns and what is IRS doing to correct them?
2. What is IRS doing to expand the use of electronic filing and make it accessible and affordable? Has IRS considered, for example, providing electronic filing capability at its walk-in sites?

Congressional Customer for Ongoing Work

Oversight Subcommittee, House Ways and Means Committee

GAO Contact: David Attianese 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Systems Modernization

Description of Problem/Issues

IRS is in the midst of a major modernization of its information systems. That modernization holds the promise of enabling IRS to do its job better and provide a higher quality, more timely service to taxpayers. Such a massive modernization involves not only technical issues but also programmatic issues. Will the modernized systems, for example, meet the needs of the program functions, and can IRS use the new technology to restructure the way it does business, thereby improving its operations and the quality of its service to the public?

Associated Costs

IRS had spent about \$120 million on its information system modernization effort as of the end of 1989 and is expected to spend several billion dollars more over the next few years. The total costs to complete this modernization may be as high as \$10 billion.

Options/Recommendations

As IRS modernizes its information systems, it needs to ensure that it doesn't simply automate its existing way of doing business. It needs to critically assess the way it does business in light of new technology and be ready to significantly alter the status quo. However IRS chooses to do business, it must provide high quality service to the taxpaying public as efficiently and effectively as possible.

Hearing Questions

1. How does IRS anticipate changing its way of doing business as it modernizes, and what are the organizational implications?
2. How will the modernization affect the nature of IRS' work force and what specific steps is IRS taking to prepare for such change?
3. How has IRS strengthened its procurement policies and practices to support the modernization effort?
4. Does IRS have sufficient technical expertise and experience to manage the modernization program and develop the new systems?

Congressional Customer for Ongoing Work

None.

GAO Contact: David Attianese 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service, Examination Programs and Exempt Organizations, Tax-Exempt Bonds

Description of Problem/Issue

States, municipalities, nonprofit organizations, and other private organizations use tax-exempt bonds to finance public-purpose projects. Over the last twenty years the volume of bonds outstanding has grown from \$106 billion to \$760 billion in 1989. Because of the growth in bond usage and the opportunities for the inappropriate use of the federal subsidy, the Congress has placed greater restrictions on the use of tax-exempt bonds.

One area of congressional concern is the use of tax-exempt bonds by nonprofit organizations for facilities that house the elderly. Concerns include the services that the facilities offer and who they serve. A number of bond issues supporting this type of facility defaulted in the early 1980s.

Associated Costs

The exact amount of federal tax revenue lost because of the tax-exemption for housing facilities for the elderly is unknown.

Options/Recommendations

None at this time; GAO work is ongoing.

Hearing Questions

1. Do the facilities financed by tax exempt bonds subsidize the rich elderly?
2. Do defaults result in the elderly being evicted from facilities?
3. How can defaults be prevented in the future?
4. What oversight responsibilities does IRS have in ensuring that the use of the federal subsidy is appropriate?

Congressional Customer for Ongoing Work

- Congressman Brian J. Donnelly
- Joint Committee on Taxation
- Senate Special Committee on Aging

GAO Contact: Tom McCool 202-272-7904

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Oversight of Tax-Exempt Bonds

Description of Problem/Issue

IRS is responsible for overseeing compliance with federal requirements regarding tax-exempt bonds. As the volume of tax-exempt bonds grew, federal legislation became more complicated, and the financing mechanisms became more diverse and complex, but IRS' oversight efforts did not increase correspondingly. Not until April 1989, when IRS instituted an Expanded Bond Audit Program, did the agency begin to change oversight of tax-exempt bonds. IRS' efforts have been reactive, not proactive. Abuses generally have been identified externally on an ad hoc basis. IRS does not systematically identify and pursue abuses as it has for some other tax provisions; obtain information to track compliance with each statutory requirement; or test for compliance. It has not determined which requirements are most likely to be violated or the significance of noncompliance with each requirement. On the other hand, IRS' ability to oversee tax-exempt bonds may be constrained by such things as the law's complexity and inappropriate penalties. The only statutory penalty uniquely applicable to federal tax-exempt bonds is declaring the bond taxable, which directly penalizes investors. IRS has never declared a widely held tax-exempt bond taxable.

Associated Costs

OMB has estimated fiscal year 1991 gross revenue losses from tax-exempt bonds at \$21 billion. We do not know how much it costs IRS to oversee and administer these bonds.

Options/Recommendations

None.

Hearing Questions

1. What priority does IRS assign to pursuing potential tax-exempt bond abuses? How was this priority determined and what does it mean in practice? How is it carried out?
2. What is IRS' position on declaring a tax-exempt bond taxable? What alternative penalties, if any, should Congress consider?
3. Has IRS considered sampling and testing tax-exempt bonds for compliance, and if so, what were IRS' conclusions?
4. Are IRS lawyers and examiners sufficiently experienced and trained to effectively handle the complex issues involved in tax-exempt bond financing?

Congressional Customer for Ongoing Work

Subcommittee on Human Resources and Intergovernmental Relations, House Committee
on Government Operations

GAO Contact: Mike Brostek 202-272-7904.

Tax Policy and Administration

Program/Component: Department of the Treasury, Internal Revenue Service,
Taxpayer Services Division, Telephone Assistance Program

Description of Problem/Issue

The IRS telephone assistance program is the agency's primary method for answering taxpayers' questions about the tax laws. Tests by GAO and IRS during the 1990 filing season showed that telephone assistors answered test questions correctly about 78 percent of the time--a substantial improvement over the test accuracy rates for the past few years. However, taxpayer accessibility to the system decreased due to fund shortages and higher than expected demand. Thus, the issue in this program is how to make the best use of scarce resources to continue to improve the accuracy of assistors' answers--IRS' goal for 1991 is 85 percent--while providing better access for taxpayers trying to reach IRS.

Associated Costs

Specific costs for the telephone assistance program are not readily available. However IRS' Fiscal Year 1991 budget request for Taxpayer Services activities was over \$330 million.

Options/Recommendations

GAO and IRS generally agree on some actions necessary to improve assistor accuracy and provide better accessibility to the system. These actions include (1) continuing top management support, (2) strengthening the training for assistors and their supervisors, (3) working to establish and maintain a stable and experienced workforce, (4) identifying factors that contribute to better assistor performance and applying them throughout the system, and (5) making use of automation to enhance assistor performance.

Hearing Questions

1. What levels of financial and human resources does IRS need to achieve its goals of improved assistor accuracy and greater system accessibility?
2. What are IRS' priorities over the next 2 years to achieve those goals since resources will be scarce?

Congressional Customers for Ongoing Work

- Oversight Subcommittee, House Committee on Ways and Means
- Subcommittee on Commerce, Consumer and Monetary Affairs, House Government Operations Committee

GAO Contact: John Lovelady 202-272-7904

Transportation Highway Trust Fund

Program/Component: Urban Mass Transportation Administration (UMTA), Urban Mass Transit

Description of Problem/Issue

Urban mass transit is one of a number of areas identified by the Comptroller General that is particularly vulnerable to fraud, waste, and mismanagement of federal funds. Currently, UMTA oversees about 4,400 grants totaling over \$33 billion. Our ongoing work at four UMTA regional offices shows that mass transit grantees have misused federal funds, and the agency has failed to detect and correct these problems.

Associated Costs

UMTA's FY 1992 request to OMB totaled \$4.0 billion, with \$2.2 billion to be provided from the Mass Transit Account of the Highway Trust Fund and the remainder from the General Fund.

Options/Recommendations

We anticipate that our ongoing work will result in recommendations for UMTA to strengthen its oversight to help minimize the potential for fraud, waste, and mismanagement of grant funds.

Hearing Questions

1. How often has UMTA withheld funds when grantees did not comply with federal requirements?
2. What are the advantages and disadvantages of increasing the states' role in overseeing mass transit projects?
3. What are the advantages and disadvantages of giving states the flexibility to determine whether federal funding should be directed toward mass transit or highway projects?

Congressional Customers for Ongoing Work

- Senate Committee on Banking, Housing and Urban Affairs
- Senate Committee on Governmental Affairs
- Subcommittee on Government Activities and Transportation, House Committee on Government Operations

GAO Contact: Mary Ann Kruslicky 202-401-4942

Transportation Highway Trust Fund

Program/Component: Department of Transportation, Federal Highway Administration, Federal Aid Highway Program, Interstate Resurfacing, Restoration, Rehabilitation, and Reconstruction (Interstate 4R)

Description of Problem/Issue

Major interstate repair work, such as resurfacing, qualifies for 90 percent federal funding, but minor repairs involving routine or preventive maintenance are solely a state responsibility. Yet, if states do not adequately meet this responsibility, the need for major interstate 4R work can be accelerated. To help prevent this from happening, Congress requires the Department of Transportation to review and certify whether state maintenance efforts are adequate. The Department, however, lacks criteria for making this determination. Further, the Department's Office of Inspector General and GAO found a number of states did not perform needed interstate maintenance work.

Associated Costs

The federal government has invested over \$100 billion in interstate construction, and authorized an additional \$2.8 billion annually in recent years for interstate preservation work--interstate 4R activities.

Options/Recommendations

One option would be to redefine the range of activities eligible for interstate 4R funding to encompass maintenance work that would extend the life of interstate pavement. (GAO/T-90-68, Apr. 24, 1990.)

Hearing Questions

1. Given the absence of any criteria for what constitutes adequate state maintenance, how can the Department of Transportation fulfill its certification responsibilities?
2. What are the pros and cons of the federal government establishing a state baseline for interstate maintenance?
3. What is the potential for reducing the interstate's life-cycle costs through expanding the range of activities eligible for federal funding?

Congressional Customer for Ongoing Work:

House Committee on Public Works and Transportation

GAO Contact: Jacquelyn L. Williams-Bridgers 202-401-6820

Unemployment Issues

Program/Component: Department of Labor, Unemployment Insurance

Description of Problem/Issue

The ability of the unemployment insurance (UI) system to provide countercyclical stimulus and wage replacement has been eroded by inadequate state trust fund reserves and insufficient administrative funding. The UI system has built considerable reserves during the past 7 years of economic expansion--\$8.1 billion in federal accounts and \$36.2 billion in state trust funds, as of January 1990. Nevertheless, the current financial condition of the UI system appears inadequate to handle a severe recession. This situation is the result of a lack of federal leadership to set and enforce solvency standards for the states.

Also, GAO has found that moneys appropriated from the UI trust fund for state administration of the program is insufficient to cover states' costs, as required by the federal unemployment tax act. Some maintain that administrative funding has been held hostage by budget reduction measures in an attempt to lower the deficit, even though this is an earmarked tax.

Associated Costs

A significant recession would result in the insolvency of 17 state trust funds, requiring an estimated \$17.4 billion in loans and an advance from general revenues of \$6.6 billion.

Options/Recommendations

GAO has suggested that if the Congress wishes to restore the forward-funded nature of the program it could require states to build adequate UI trust fund reserves. (GAO/HRD-88-55 and GAO/HRD-90-124)

Hearing Questions

1. As the nation enters a recession and states begin exhausting their UI reserves, what actions will the Department of Labor take to ensure the program achieves its intended objectives of countercyclical stimulus and earnings replacement for laid off workers?
2. How will Labor ensure adequate funding for states' costs?

Congressional Customer for Ongoing Work

None.

GAO Contact: Sigurd R. Nilsen 202-523-8701

Unemployment Issues

Program/Component: Emergency Job Creation, public works projects as a countercyclical job creation measure.

Description of Problem/Issue

GAO's analysis of the 1983 Emergency Jobs Appropriation Act's impact on employment found that as a means to create jobs for the unemployed during a recession, public works job programs offer too little, too late.

Associated Costs

The 1983 legislation authorized \$9.3 billion in funding for such projects. Given increases in the cost of living, an equivalent program today would cost about \$12 billion.

Options/Recommendations

As the economy apparently enters another recession, it is important to remember the lessons of the past which demonstrate that public service employment is a more effective job-creation mechanism because funds can be spent quicker and more directly on the unemployed.

Hearing Questions

1. What actions will the Department of Labor take to provide jobs for the unemployed or mitigate its impact as the current recession deepens?

Congressional Customer for Ongoing Work

No ongoing work.

GAO contact: Sigurd R. Nilsen 202-523-8701



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

January 28, 1991

THE DIRECTOR

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This responds to the letter from you and Subcommittee Chairman Pickle concerning your plans to conduct oversight hearings on the efficiency and effectiveness of certain Federal programs. We agree on the importance of this kind of oversight. The Administration is also stressing the evaluation of Federal programs.

In response to your request for our views on which programs and issues would be suitable for the review, we offer the following comments. One key area to address could be improved service and efficiency in the Internal Revenue Service, the Medicare program, or the railroad retirement system. A second area could be improved information collection related to Medicare data, trust fund accounting, or program performance measurement. A third area might be fixing programs that are widely regarded as flawed, such as the foster care program.

The President's FY 1992 Budget will also address the efficiency and effectiveness of Federal programs. We believe that the 1992 Budget will provide additional useful information for other areas that the Committee may wish to consider.

We are pleased that you have invited Cabinet Secretaries and Inspectors General to nominate programs for oversight. We look forward to working closely with the Committee, Executive agencies, and Inspectors General as you develop and pursue your oversight agenda in the 102nd Congress.

With best regards,

Richard Darman
Director

IDENTICAL LETTER SENT TO HONORABLE J.J. PICKLE

c: Honorable Bill Archer
Honorable Richard T. Schulze



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

FEB 12 1991

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the recent letter, which was co-signed by Chairman Pickle, which sought suggestions on ways to improve federal program effectiveness. I share your concern that the programs of this Department be effectively and efficiently operated. It is my belief that the HHS programs that come within the jurisdiction of the Committee on Ways and Means are indeed effective in achieving the purposes for which they were designed.

Obviously, the administration of the varied and complex programs under this Department is a formidable task. We conduct a continual review to find ways of accomplishing this more efficiently. Nevertheless, we are always grateful for the assistance and cooperation of the Congress in finding more efficient ways to carry out our responsibilities. While we would not want to bog the Committee down in micro-level issues of administration, there are several areas of wide-ranging programmatic significance in which I believe that a dialogue would be informative and productive for both the Department and the Committee.

Social Security Strategic Plan

The Limitation on Administrative Expenses (LAE) account funds the administration of the Social Security program. By 1992, LAE will have grown by more than 18 percent over 1990. As the beneficiary population grows in the future, it will put additional pressure on the Social Security Administration to develop more efficient and effective ways to manage their workload within the available administrative resources. Particularly in light of the constraints imposed by the Budget Enforcement Act of 1990, it is important to articulate a long-range vision for managing SSA into the next century.

Fortunately, SSA is currently in the process of developing a long-range strategic plan. The plan will define service requirements, means to increase productivity and efficiency, projected investments in new technology, and, in general, provide a picture of how SSA will deliver high quality service to the American public. Following Departmental and Administration review of the plan in May, we would of course be happy to share

Page - 2 The Honorable Dan Rostenkowski

it with the Committee. It is important that the Congress and public understand that the future administrative viability of the Social Security program is assured.

Social Security Representative Payee

Prior to enactment of OBRA 90, at the direction of Commissioner King, SSA began to review its Representative Payee policies and procedures. This on-going review resulted in some immediate refinements which will ultimately better protect the public interest and help ensure proper use of benefits. The Commissioner has also directed the implementation of a community outreach effort to expand the sources of potential payees.

While we are pleased with efforts directed towards improving representative payee policies and applaud the concern demonstrated in the OBRA 90 provisions, we recognize that this sensitive area will continue to undergo close public scrutiny. It is incumbent upon us to ensure that the Agency-initiated improvements and the OBRA 90 provisions will provide the desired end result of protecting this vulnerable beneficiary population who need assistance in managing their funds. Payee reform should not establish new procedures that are overly burdensome and reduce administrative flexibility in responding quickly, efficiently, and with compassion to those persons who have demonstrated a need for our protection. We recognize that resources are very limited and, therefore, it is extremely important that resources dedicated to this effort be utilized in the most effective manner. We welcome any effort directed toward helping us achieve this important goal.

Medicare Contractors

One major area in which I see a need for significant reform is Medicare contractors. We are actively exploring ways to improve the uniformity, efficiency, and performance of Medicare contractors, including a review of alternatives to current contractor arrangements. Issues being examined include reducing geographic variations in coverage, payment policy, and medical review criteria; the potential for consolidation and standardization; and improvements in beneficiary relationship. When we have developed a strategy, we will seek the Committee's support for any legislative changes necessary to accomplish improvements.

Emergency Assistance

The Emergency Assistance (EA) program was established as an optional complement to the AFDC program under Title IV-A of the Social Security Act. Its purpose is to provide short-term

Page - 3 The Honorable Dan Rostenkowski

assistance and services to eligible families experiencing an emergency. The program is financed by Federal and State funds, with the Federal Government matching State expenditures dollar-for-dollar. The Act provides that EA can be "furnished for a period not in excess of 30 days in any 12-month period."

Over time, States have used Federal regulatory language to cover costs of providing emergency shelter for extended periods. Over the past 5 years, EA program expenditures have risen by 73 percent. Five States -- California, Massachusetts, Michigan, New Jersey, and New York -- accounted for 76 percent of total EA expenditures in 1990.

The Department is developing proposed regulations to make the EA program more responsive to emergencies and ensure it effectively provides assistance for low-income families and children, and to provide enhanced financial control over EA expenditures. In the meantime, the Committee could look at current State practices as well as expenditures in the EA program.

Foster Care

Federal payments for State administration of the Foster Care program continue to escalate at an unacceptable rate, outpacing growth in both maintenance payments to families and institutions caring for foster children, and numbers of children in care. Foster Care administrative cost are defined very broadly in legislation, and State have discovered that many service-related activities conducted by State workers can be financed through this program, along with more typical agency overhead expenses. A 1990 HHS Office of the Inspector General report on Foster Care Administrative costs explains the escalation in administrative costs primarily as a result of: an expanded definition of allowable costs under the statute; a broad interpretation of that definition by the Departmental Grant Appeals Board; and States' use of consultants to increase Title IV-E eligibility rates and designing cost allocation systems for capturing additional allowable costs.

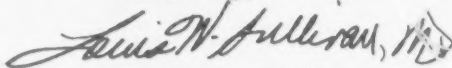
One specific category of administrative costs allowed under the current statute are administrative costs related to "pre-placement" services. Although the law requires States to attempt to avoid placement in foster care by providing services prior to placement to children at-risk of entering foster care, allowing this category of payment opens up foster care administrative payments to almost any IV-E eligible child receiving services through the State child welfare agency. As a result, federal Foster Care administrative payments are being made on behalf of children who are not currently, and who may never be, in foster care.

Page - 4 The Honorable Dan Rostenkowski

In FY 1991, we estimate approximately 25¢, or \$191 million, of Foster Care Administrative costs will fund "pre-placement " activities. We are proposing legislation in the 1992 President's Budget to better target program funds and recommend that the Committee explore precluding Federal reimbursement for this category of administrative costs and refocus the Foster Care program by targeting both maintenance and administrative payments only for eligible children in foster care.

These areas warrant the committee's careful review and consideration. I look forward to working with the Committee to facilitate its overview. I am sending a similar letter to Chairman Pickle.

Sincerely,

A handwritten signature in dark ink, reading "Louis W. Sullivan, M.D.", with a stylized flourish at the end.

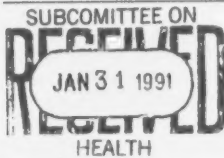
Louis W. Sullivan, M.D.
Secretary



DEPARTMENT OF HEALTH & HUMAN SERVICES

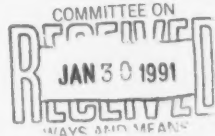
Office of Inspector General

Washington, D.C. 20201



JAN 28 1991

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515



Dear Mr. Chairman:

This is in response to your December 19, 1990 letter requesting our views on Federal programs in which funds are not being efficiently used and programs which are not effectively achieving their goals.

I have enclosed for your consideration copies of the Office of Inspector General (OIG) Cost-Saver Handbook (The Red Book) and Program and Management Improvement Recommendations (The Orange Book). The Red Book outlines cost saving recommendations and proposals that have been made by our office and which, if implemented, would result in substantial monetary savings to the Department's programs. The Orange Book highlights recent OIG reviews recommending corrective action in the Department's programs and activities. In many cases, Department management is taking or has agreed to take the corrective action recommended.

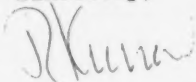
We also recommend that your staff review the Secretary's most recent Federal Managers' Financial Integrity Act Report to the President and Congress. The report lists all of the Department's material weaknesses and what action is being taken to correct them. In addition, the report identifies high risk areas in departmental programs, as well as early warnings of potential problems.

Finally, you asked that we highlight those problems which we believe are worthy of more in-depth attention. We have enclosed a summary of such items for your consideration. Several of these items are taken directly from our Red and Orange Books.

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I hope these materials are helpful in your Committee's review of the efficiency and effectiveness of the Department of Health and Human Services' programs. We have also sent a similar letter to Congressman Pickle. If we can be of any additional help or if you need further assistance, please contact me or have your staff contact Stephen Davis at 619-3270.

Sincerely,



Richard P. Kusserow
Inspector General

Enclosures

LIST OF SIGNIFICANT ISSUES

HEALTH CARE FINANCING

Modify Payment Policy for Medicare Bad Debts: Under Medicare's prospective payment system, hospitals are reimbursed for inpatient services rendered to Medicare beneficiaries by a fixed payment amount based on a diagnosis related group. However, bad debts related to unpaid deductible and coinsurance amounts are reimbursed separately as pass-through costs under reasonable cost principles. Our analysis indicates need for legislative action to modify this bad debt payment policy. If enacted, we estimate that as much as \$400 million could be saved annually.

Identify and Recover Medicare Secondary Payer (MSP) Claims: Medicare is secondary payer to employer group health plans (EGHPs) for beneficiaries over age 65 and in certain other situations set forth in statute. We believe that \$900 million could be saved annually by enacting legislation which would require insurance companies, underwriters, and third-party administrators to periodically submit EGHP coverage data directly to the Health Care Financing Administration. The collection of accurate and timely information on other primary payers is needed to reduce Medicare overpayments which result from unidentified MSP cases.

Health Maintenance Organizations (HMOs): Recently, there have been numerous media reports and expressions of congressional concern regarding the marketing practices of certain South Florida HMOs. Because of these concerns, we have initiated a review of these marketing practices, including enrollment and possible disenrollment techniques, to determine whether they are within accepted government standards. Depending on the outcome of this review, we will determine whether this activity should be expanded nationwide.

SOCIAL SECURITY

Recover Value Lost to the Trust Funds from Past Due Debts: The Social Security Administration (SSA) maintains electronic control of overpayments until the individual debtors become reentitled to monthly benefits. If and when reentitlement occurs, the debts can be offset against benefits then payable. This is the only recovery option available to SSA once monthly benefits have ended and collection efforts proved to be unproductive. Barring unexpected repayments by debtors, the overpayments can remain in a terminated collection status for extended periods. The Office of Inspector General believes that \$112 million could be saved annually if a policy change is made

which would allow recovery for each delinquent overpayment either by the higher of the interest income lost to the trust funds or the value lost to the trust funds due to inflation.

Establish a Consistent Eligibility Date for all Age-Based Title II Payments: The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) amended the Social Security Act to delay eligibility for reduced retirement benefits until the first month throughout which the individual is age 62. Those electing full retirement benefits at age 65 and those applying for reduced survivor benefits at age 62 continue to receive benefits in the month of age attainment. We believe that \$340 million could be saved over a 5-year period if the Act were amended to establish a consistent eligibility date for all age-based title II payments as the first month throughout which the individual is the required age.

Certification of Wages for Tax Years Subsequent to 1977: At the request of the SSA, we presented a recommendation for the certification of wages to the U.S. Treasury for the tax years subsequent to 1977. Certification has been delayed due to unresolved discrepancies in the amount of wages reported to SSA and the Internal Revenue Service. We determined that there is no reliable information currently available upon which to base a certification. We have recommended that SSA should compute the certification of wages for the years in question on the basis of the wages recorded in its wage records and an estimate of the amount of additional unrecorded wages contained in the universe of unresolved differences.

Disability Insurance Windfall: Social Security Disability Insurance payments are made irrespective of private disability insurance payments and indemnity settlements for non-work related injuries or illness. We are planning to undertake a review in this area. Although we have no estimate of potential savings at this time, a private study showed that \$29 billion in private disability insurance/indemnity payments were made in 1986.

FAMILY SUPPORT ADMINISTRATION

Eliminate the \$50 Child Support Disregard in the Aid to Families with Dependent Children (AFDC) Program: As a condition of eligibility for AFDC assistance, families receiving support services must relinquish to the State their rights to the support payments collected on their behalf. Effective October 1984, the Deficit Reduction Act of 1984 provided that the first \$50 of the child support collected from an absent parent per AFDC family per month should be turned over to the family and not counted toward reducing AFDC payments. Sums collected after the first \$50

are used to reduce AFDC program costs. The purpose was to provide an incentive for AFDC families to cooperate more fully with child support enforcement officials in locating the absent parent. We believe that \$175 million could be saved annually by eliminating the \$50 child support payment to AFDC families. We have found that this payment is not providing the incentive to cooperate more fully with child support enforcement officials.

HUMAN DEVELOPMENT SERVICES

Limit Federal Participation in States' Costs for Administering the Foster Care Program: Title IV-E of the Social Security Act makes Federal funding available to States for costs incurred in providing care and maintenance to eligible children, as well as in related administrative and training costs. Our review showed that administrative costs are composed of service-related costs that are now called "child placement services, in addition to allocable indirect overhead costs. We identified several actions that could be taken to constrain the rate of growth. Depending upon the options selected, savings could be as much as \$2.3 billion over 5 years (Fiscal Years 1991 - 1995) without diminishing the quality of services.

GENERAL DEPARTMENTAL MANAGEMENT

Disallow Interest Charges on Unfunded Actuarial Liabilities of Government Pension Plans: Interest associated with unfunded actuarial liabilities of State and local government pension plans is incurred as a cost of federally funded programs. Federal guidelines are not clear on the allowability of pension interest cost. Criteria for reimbursement of costs incurred under Federal programs state that interest is not an allowable charge. However, pension expense of a grantee is allowable and interest is normally treated as a component of pension expense. We have suggested that approximately \$1.3 billion could be saved if we disallowed the interest expense associated with unfunded actuarial liabilities.

PUBLIC HEALTH SERVICE - FOOD AND DRUG ADMINISTRATION (FDA)

Institute and Collect User Fees for FDA Functions: The FDA currently imposes user fees for several activities, including color certification, reconditioning of products, and imported tea inspections. The FDA has been precluded from using their general statutory authority found in Title V of the Independent Offices Appropriation Act of 1952 for imposing user fees to cover additional functions in the absence of specific authorizing legislation. We have recommended that user fees be extended by FDA to various functions, possibly including premarket review and approvals

for drugs and devices, inspections of manufacturing facilities and inspections of food processors and establishments. We can see potential savings of approximately \$500 million per year, depending on the amount of fees and the functions covered.

[The following documents accompanied this letter and have been retained in the Committee files:

U.S. Department of Health and Human Services, Office of Inspector General, "Cost-Saver Handbook: The Red Book," Summer 1990.

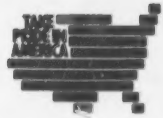
U.S. Department of Health and Human Services, Office of Inspector General, "Program and Management Improvement Recommendations: The Orange Book," Winter 1990/91.

U.S. Department of Health and Human Services, Office of Inspector General, "Semiannual Report," April 1, 1990 - September 30, 1990.]



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

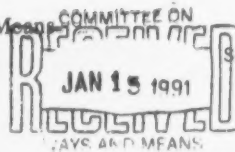


JAN 10 1991

RECEIVED

JAN 15 1991

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D. C. 20515



Ways and Means
Subcommittee on Oversight

Dear Mr. Chairman:

This responds to your letter of December 19, 1990, to Secretary Lujan requesting information on Federal programs in which Federal funds are not efficiently used and programs which are not effectively achieving their goals within the Committee's jurisdiction. I am enclosing several publications which should assist you in determining if the Department of the Interior has any programs which you would like to review. These publications include:

The Secretary's Annual Statement and Report to the President and the Congress in accordance with the Federal Managers' Financial Integrity Act, and

Semiannual Reports of the Office of Inspector General, Department of the Interior dated October 1990, April 1990, October 1989 and April 1989.

A similar letter has been sent to the Honorable J. J. Pickle.

Sincerely,

John E. Schrote
JOHN E. SCHROTE
Acting Assistant Secretary
Policy, Management and Budget

Enclosures (5)

Celebrating the United States Constitution

cc: Honorable Bill Archer
Ranking Member
Committee on Ways and Means
House of Representatives
Washington, D. C. 20515

Honorable Richard T. Schulze
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives
Washington, D. C. 20515

[The following documents accompanied this letter and have been retained in the Committee files:

U.S. Department of the Interior, "Secretary's Annual Statement and Report to the President and the Congress," December 1990.

U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," April 1989.

U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," October 1989.

U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," April 1990.

U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," October 1990.]



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20240



JAN 31 1991

Ms. Susan Athy
Professional Assistant
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
1105 Longworth House Office Building
Washington, DC 20515

Dear Ms. Athy:

As discussed with you, there are enclosed for Committee use four Office of Inspector General audit reports, as set out on the attached list.

Two reports, as listed below, are in draft form and we expect to issue them in final in late February or early March. Copies will be furnished to you when the reports are issued.

"Enforcement of Common Carrier Statutes for Pipelines on Federal Lands in California, Bureau of Land Management," Audit No. C-LM-BLM-10-90.

"Protection of U.S. Government Minerals Rights in the Cerritos Channel, Bureau of Land Management," Audit No. C-LM-BLM-09-90(A).

If you have any questions concerning these reports, please feel free to call me at telephone number 208-5745.

Sincerely,

Joyce N. Fleischman
Deputy Inspector General

Enclosures

"Inspection and Enforcement Program and Selected Related Activities, Bureau of Land Management," Report No. 90-18, dated November 1989.

"Geothermal Resources Program, Bureau of Land Management," Report No. 90-34, dated January 1990.

"The Endangered Species Program, U.S. Fish and Wildlife Service," Report No. 90-98, dated September 1990.

"Drainage Protection Program, Bureau of Land Management," Report No. 90-100, dated September 1990.

[The following documents accompanied this letter and have been retained in the Committee files:

U.S. Department of the Interior, Office of Inspector General,
"Audit Report: The Endangered Species Program," September 1990, Report No. 90-98.

U.S. Department of the Interior, Office of Inspector General,
"Audit Report: Drainage Protection Program," September 1990, Report No. 90-100.

U.S. Department of the Interior, Office of Inspector General,
"Audit Report: Inspection and Enforcement Program and Selected Related Activities," November 1989, Report No. 90-18.

U.S. Department of the Interior, Office of Inspector General,
"Audit Report: Geothermal Resources Program," January 1990, Report No. 90-34.]

U.S. Department of Labor

Inspector General
Washington, D.C. 20210

JAN 22 1991

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your and Congressman Pickle's request for input from the Office of Inspector General on your upcoming series of hearings to review the efficiency and effectiveness of Federal programs.

There are several issues which I would like to see addressed during the Committee's review. They have all been identified via the Federal Managers' Financial Integrity Act (FMFIA) process which requires that executive agencies establish and maintain systems of accounting and internal control to provide reasonable assurance that reliable statistics and financial reports can be obtained.

In all cases, the Department has indicated its intention to address the problems raised. However, we remain concerned about commitment to and timeliness of corrective action. A compendium of the areas with the most potential for discussion follows.

JTPA. Since 1987, the Secretary's FMFIA reports have found that Single Audit Act coverage for JTPA grantees is inadequate. OIG is also concerned about limitations in the audit coverage provided to all Labor programs under the Single Audit Act and we are currently completing a comprehensive review of reporting compliance and the amount of coverage Labor programs receive under Single Audit.

Second, in the Secretary's 1990 FMFIA report, JTPA Service Delivery Area (SDA) procurement systems were proposed as a new high risk area because a number of OIG audits found that inappropriate procurement practices by states and SDAs impacted the integrity of JTPA expenditures. Examples include misapplication of fixed unit price, performance based contract processes and procedures; payment for less than adequate performance; lack of competition; and actual or apparent conflicts of interest. Many of the problems resulted from insufficient Federal regulatory guidance and inadequate monitoring procedures.

Third, beginning in 1988, OIG has recommended that ETA develop criteria for measuring the return on investment of JTPA programs as required by Section 106 of the Act. As updated in the 1990 FMFIA report, the Department now targets completion of various studies for March 1992. Also in 1988, OIG found marked inconsistencies in the quality of draftsmanship and the degree of protection offered in a statistical sample of state and local level JTPA Title II-A service provider contracts. ETA did not meet its original corrective action date of September 1990 because of delays in the procurement process for obtaining a contractor to develop a training package to address the problems raised in the audit.

UNEMPLOYMENT INSURANCE. In addition, as part of its FMFIA responsibility, the Department must ensure that unemployment insurance (UI) systems have adequate accounting and internal controls.

The Secretary had reported weaknesses in state accounting systems and OIG has identified serious problems in the UI system beginning in 1985 when OIG issued an audit report about the effectiveness of experience rating in financing the unemployment insurance program. We found that only half the tax contributions were actually based on an individual employer's prior unemployment experience. Furthermore, the state systems did not fully account for experience rating, the foundation of the UI tax structure. UI taxes are based on the concept that higher risks, as reflected by past experience with unemployment, should be reflected by higher tax rates.

In 1986, the Employment and Training Administration (ETA) refused to implement a prototype reporting mechanism provided by OIG, requesting that OIG further review the reporting mechanism and state operations.

Our 1990 reports presented the results of this review and recommended four improvements to state unemployment insurance experience rating accounting and Federal reporting:

- State Employment Security Agencies (SESAs) should be assisted to improve their accounting systems. We found half the SESAs did not maintain a general ledger for their UI trust fund transactions.
- States should be instructed to fully account for both employer and socialized cost elements of experience rating. Of the 27 states that maintained general ledgers, only 3 were designed to fully account for experience rating activity.

-3-

- A complete evaluation of Federal reporting should be conducted. Of 34 reports reviewed, 41 percent did not agree with the underlying accounting system. The reporting system has evolved over time. A cohesive structure would improve efficient and accurate report preparation and information with related accounting systems.
- Support should be provided to upgrade state accounting system automation. Relatively low cost off-the-shelf general ledger packages are available which can integrate the tax benefit and general ledger systems and prepare standard Federal and state reports.

We also developed a model accounting system to assist ETA in improving SESA financial operations. ETA agreed with the need for accounting system improvements and responded with a plan which will not be fully implemented until at least 1995 or later, depending on budget limitations.

Delays in completion of the system improvements could also impact on the UI Quality Control (UI-QC) program, a major vehicle for measuring the accuracy and efficiency of state UI administrative procedures which will assist the Secretary in fulfilling statutory responsibilities for UI program oversight. To date, only benefits QC is fully operational. Denial (denied claims) QC is on hold due to tightening of resources and revenue (tax collections) QC is under long-term development.

DEPARTMENTAL ENFORCEMENT ACTIVITIES. OIG has criticized the Department's longstanding reluctance to recognize and use all of the tools available for workforce- and workplace-related criminal enforcement at the Federal level. In 1990, OIG reviewed the extent to which the Department used criminal enforcement remedies and concluded that the Department lacks a framework for capturing and reporting data about criminal investigations. Without this information, the Department is unable to evaluate the effectiveness of its agencies' criminal enforcement actions. OIG believes that regardless of the role departmental management defines for criminal enforcement, there must be a means to evaluate the resources applied to, and the results obtained from, its criminal enforcement effort.

According to the Secretary's 1990 FMFIA report, in 1991 the Department will identify 1991 enforcement funds, designate agency criminal enforcement coordinators, and cross-train agency compliance officers. The Department also plans to complete a feasibility study for an enforcement data base and design a criminal investigations framework, which it plans to implement in 1992. OIG will monitor

the Department's progress in implementing these ambitious goals. OIG is concerned about several areas of the Department's proposals, including the design of each agency's enforcement program, the viability of the Department's voluntary compliance policy, the role of the Policy Review Board as "anchor" of DOL's overall enforcement program, and the adequacy and integration of the proposed enforcement data base and criminal investigations framework.

ERISA AUDIT PROCESS (IPA Quality Control). Weaknesses in the Employee Retirement Income Security Act (ERISA), in Federal oversight and quality control of the pension plan audit process and in audit guidelines promulgated by the accounting profession for benefit plan audits, have resulted in the waste of pension plan assets spent on audits and the lack of intended protection for participant assets. The absence of effective requirements and oversight has allowed Independent Public Accountants (IPAs) to (1) inadequately test plan assets and transactions during audit; (2) perform audit work that does not meet professional standards; (3) fail to report illegal acts; and (4) fail to disclose information or render opinions as required by ERISA. These weaknesses have permitted (1) up to 43 percent (approximately \$774 billion) of pension plan assets to escape examination by auditors; (2) almost 25 percent of plan audit work to be substandard; (3) almost 65 percent of plan audit reports to lack full disclosure to participants; and (4) up to 71 percent of illegal acts to go unreported.

Employee benefit plans, including pension plans, protect over 66 million workers, retirees and their families and contain more than \$2 trillion in assets.

Since 1984, OIG has made a series of recommendations to the Pension and Welfare Benefits Administration (PWBA) to eliminate weaknesses evident in pension plan audits and reduce the risk to participants and, secondarily, to the Federal Government, which guarantees the payment of pension benefits for defined benefit plans.

PWBA has generally concurred with the intent of OIG audit recommendations and has taken action on a number of them, including (1) working with the American Institute of Certified Public Accountants (AICPA) to improve audit testing, reporting and disclosure guidelines, to incorporate ERISA audits in peer reviews and increase ERISA-related training; (2) expanding its quality review procedures to include evaluations of IPA work to determine compliance with Generally Accepted Auditing Standards (GAAS); and

-5-

(3) using its existing enforcement authority against plan administrators and IPAs to obtain correction of deficient audit work or sanctions against practitioners, where appropriate.

In addition, PWBA has developed and forwarded to OMB and Congress legislative proposals to increase incentives for private enforcement.

OIG supports PWBA's attempts to reintroduce the legislative proposals for the repeal of the "limited scope" audit provisions of Section 103(a)(3)(C) of ERISA and require peer review participation for IPAs at Section 103(a)(3)(D) of ERISA.

In the Secretary's 1990 FMFIA report, the Department has committed to drafting either regulations (final regulations to be effective October 1, 1991) or legislation by March 31, 1991, which will:

- mandate the use by all practitioners of the revised industry audit guide for benefit plans containing enhanced testing, reporting and disclosure guidelines;
- require direct reporting by IPAs of significant violations and events to plan management, board of directors and plan audit committee and, in cases where these entities fail to report such violations and events to PWBA, to PWBA for immediate Federal enforcement action; and
- require the establishment of parties separate from plan management to oversee IPA audits on behalf of plan participants.

We will closely monitor PWBA's efforts to meet the Secretary's commitment within the proposed timeframes.

I believe that if the Committee will focus its attention on these areas of concern, we will all go a long way toward improving efficient use of Federal funds and effecting achievement of program goals.

Sincerely,


Julian W. De La Rosa
Inspector General

[The following document accompanied this letter and has been retained in the Committee files:

U.S. Department of Labor, Office of Inspector General,
"Semiannual Report," April 1 - September 30, 1990.]



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 30, 1991

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Chairman Rostenkowski:

This is in response to your request for my views on programs within your Committee's jurisdiction in which Federal funds are not efficiently used or which are not effectively achieving their goals. Department of Transportation programs that may fall within your Committee's area of interest include those funded from the transportation trust funds and administered by the Federal Aviation Administration, the Federal Highway Administration, the National Highway Traffic Safety Administration, and the Urban Mass Transportation Administration.

My first priority as Secretary of Transportation was development of a National Transportation Policy based on a review of existing policies and an assessment of how effective those policies are. As part of that process, we conducted a nationwide outreach effort. In public hearings, focus group sessions, seminars with transportation experts, letters and reports, Americans voiced their thoughts. That effort gave us a clear picture of what America's transportation users view as the successes and failures of the Nation's transportation system and of the Federal programs aimed at improving that system. The recommendations that we included in the National Transportation Policy were based in large part on the findings from our outreach effort, and among those recommendations are many to modify Federal programs to improve their effectiveness. I am enclosing a copy of our Statement of National Transportation Policy, which I think should be very helpful to your Committee.

Of particular interest to your Committee will be our recommendations for more effective use of the transportation trust funds -- especially the Highway Trust Fund, since the programs it supports must be reauthorized this year. We will soon submit proposed legislation to Congress for reauthorization of our surface transportation programs that will build on the recommendations in the National Transportation Policy. With respect to the Highway Trust Fund, those recommendations include: allowing greater flexibility in the use of the Highway Trust Funds for highway and transit purposes and restructuring the Federal mass transportation assistance programs to reduce reliance on the General Fund.

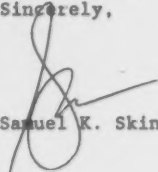
In the past, Congress has added frequently low-priority and cost-ineffective "demonstration" programs and projects to legislation affecting this Department, particularly in the highway and transit area. We are hopeful that, as Congress considers reauthorization of our surface transportation programs, it will

-2-

provide the degree of flexibility to the States that we will recommend and that it will not divert funds for special-interest demonstration projects that might otherwise not be funded.

I appreciate your interest in our programs, and I hope the Statement of National Transportation Policy will be helpful in your Committee's deliberations. An identical letter is being sent to Chairman Pickle.

Sincerely,



Samuel K. Skinner

Enclosure

[The following document accompanied this letter and has been retained in the Committee files:

U.S. Department of Transportation, Office of the Secretary,
"Moving America: New Directions, New Opportunities," February
1990.]



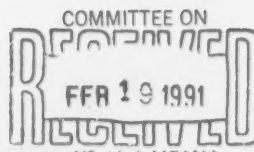
U.S. Department
of Transportation
Federal Aviation
Administration

FEB 12 1991

Office of the Administrator

800 Independence Ave., S.W.
Washington, D.C. 20591

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, DC 20515



Dear Mr. Chairman:

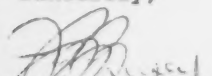
Thank you for your letter, cosigned by Representative J. J. Pickle, soliciting our views on Federal Aviation Administration (FAA) programs and issues, including administration of trust funds, which should be addressed by your Committee during the 102nd Congress.

As you know, Congress passed the Aviation Capacity and Expansion Act of 1990, as part of the Omnibus Budget Reconciliation Act (Subtitle B, Title IX, Public Law 101-508). One of the provisions contained in the legislation was the removal of a major impediment which accounted for the growing surplus in the Airport and Airway Trust Fund.

The new legislation eliminated the Trust Fund's "penalty clause" and provides the authority to fund 75 percent of the FAA's operations and maintenance budget from the Trust Fund. This new authority, in conjunction with increased authorization levels for our Airport Improvement Program and the Airway Capital Investment Plan, will greatly enhance our ability to improve aviation safety and capacity. As a result, we see no need for further congressional action at this time.

An identical letter has been sent to Representative Pickle. If I can be of further assistance, please let me know.

Sincerely,


James B. Busey
Administrator



U.S. Department
of Transportation
**Federal Highway
Administration**

Office of the Administrator

400 Seventh St., S.W.
Washington, D.C. 20590

January 22, 1991
Refer To: HPP-24

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

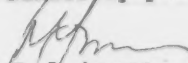
Thank you for your letter of December 19, 1990, cosigned by Representative J. J. Pickle, in which you indicated your intention to hold hearings on the effectiveness of Federal programs and asked for information on programs that the Federal Highway Administration administers.

The Federal-Aid Highway Program and the funding categories it encompasses is recognized as one of the better Federal financing programs in the way the funds are delivered to and utilized by the recipients, the State highway and transportation agencies. There is a long history that the Federal-highway funds are used to the fullest extent possible.

As you may be aware, this agency is developing a legislative proposal that would restructure the current highway program. This legislative proposal will build on the flexibility recommendations in the recently published National Transportation Policy. We believe this restructuring will result in even more effective utilization of Federal highway funds, because it will focus on highways that are important from a national perspective and, at the same time, provide the States greater flexibility in determining where and how to use the funds. We expect the legislative package to be submitted to Congress in February of this year.

I support your efforts to improve the use of Federal funds and look forward to working with you to achieve that objective for the continuation of the highway program. An identical letter has been sent to Representative J. J. Pickle.

Sincerely yours,


T. D. Larson
Administrator



U.S. Department of
Transportation
Office of the Secretary
of Transportation

The Inspector General

Office of Inspector General
Washington, D.C. 20590

JAN 22 1991

The Honorable Dan Rostenkowski
Chairman, Committee On Ways and Means
U.S. House of Representatives
Washington, D.C. 20590

Dear Mr. Chairman:

This letter responds to your request for assistance in identifying issues of possible committee interest which involve Federal trust funds administered by the Department of Transportation. We have identified one revenue enhancement issue and five expenditure issues which we believe may be of interest to you.

HIGHWAY TRUST FUND

Revenue Enhancement - The Joint Federal/State Motor Fuel Enhancement Project

The Federal Highway Administration (FHWA) and the Internal Revenue Service (IRS) believe that there is significant fuel tax evasion, with estimates of annual losses to the Highway Trust Fund of as much as \$1 billion per year. Motor fuel taxes account for nearly 80 percent of the \$15 billion annual income to the Highway Trust Fund. The Federal tax on diesel fuel is now 20.1 cents per gallon, which diesel fuel/fuel oil wholesalers can evade by falsely reporting diesel fuel sales as home heating oil sales. Gasohol blenders are another source of potential evasion because gasoline purchased for blending with alcohol is taxed at a lower rate than gasoline designated for retail.

The FHWA has joined forces with the IRS and several state governments to form the Joint Federal/State Motor Fuel Tax Compliance Project. The project goal is to increase motor fuel tax revenues by aggressively auditing, investigating, and prosecuting fuel tax evaders. The FHWA has projected a 5-year cost for this project of \$32 million, with the following expenditure levels: \$300,000 in Fiscal Year (FY) 1990, \$2 million in FY 1991, \$4.9 million in FY 1992, \$9.2 million in FY 1993, \$9.2 million in FY 1994, and \$8.5 million in FY 1995. The Congress appropriated \$500,000 for FY 1991 to fund the joint project, which represented 25 percent of the requested amount.

To ensure maximum tax compliance, Congress should consider fully funding the Joint Federal/State Motor Fuel Tax Compliance Project.

Expenditures - FHWA Demonstration Projects

Section 149 of the Surface Transportation and Uniform Relocation Assistance Act of 1987 (P.L. 100-17) identified 152 specific demonstration and priority projects to receive Federal funding. The 5-year cost of these projects was estimated to be \$1.4 billion. Of this amount, \$535 million was to come from discretionary funds and \$890 million was to come from regular highway program apportionments.

Previous administrations have vetoed such provisions because: (1) the projects were not selected through the established Federal-aid highway program mechanism that relies on the expertise of state and local officials; and (2) there is virtually no hearing record and related analyses regarding the merits or priority of these projects. In the view of the states or localities, these demonstration projects may not be priority projects. Further, they may include funding for special interest highway and transit construction projects. In addition, because the projects were not selected through the established Federal-aid highway mechanism, the projects may not be cost effective. Whether these demonstration projects represent the best use of available construction funds should be an oversight issue.

Expenditures - Urban Mass Transportation Administration (UMTA) Grants Management

During FYs 1989 and 1990, UMTA obligated \$2.3 billion in highway trust funds to grants for a wide variety of mass transit projects. About 700 state and local grantees receive these funds. Section 3, Discretionary Grant Program and Section 9, Formula Grants are used to construct new transit projects, such as light rail, to refurbish existing rail systems, or to purchase buses. Formula grant funds are also used to support the operation of mass transit systems. Currently, UMTA oversees more than 5,100 active grant projects having unexpended balances of over \$8.3 billion. During FYs 1990 and 1991, UMTA funding will provide an estimated \$5.9 billion in section 3 and section 9 grants, of which \$2.7 billion will come from the Highway Trust Fund.

During the 1980's, UMTA limited its oversight of grantees, relying heavily on the grantee to properly manage its grant programs. However, in the past 3 fiscal years, the Office of Inspector General (OIG) has reported that UMTA's grants management process is not working well. Ongoing OIG audits citing deficiencies in UMTA's oversight of grants management include peak vehicle requirements, bus service life, and grant oversight practices. Additional information regarding UMTA grants management is included at Tab "A."

In DOT's 1989 and 1990 Federal Managers Financial Integrity Act (FMFIA) reports, UMTA included the need for increased grants management oversight as a material internal control weakness. Although UMTA's program level continues to exceed \$3 billion annually, staffing has fallen from 565 in FY 1981 to 415 in FY 1990. UMTA must ensure that

despite the staffing cuts, that they allocate sufficient resources to improve their ability to review project proposals, to conduct triennial reviews of grantees, and to increase general oversight of the grantees' adherence to Federal requirements. Based on this FMFIA report, UMTA requested additional resources in FY 1991 and 14 positions were approved. Additionally, UMTA plans to perform a staffing analysis and has requested 31 additional positions for FY 1992. Regardless of whether UMTA obtains additional staffing, Congress should clearly instruct UMTA on its oversight responsibilities and ensure that UMTA devotes sufficient staff to effectively oversee its grant programs.

AQUATIC RESOURCES TRUST FUND

Expenditures - U.S. Coast Guard's Administration of the Boating Safety Program

The Aquatic Resources (Wallop-Breaux) Trust Fund was established in 1984 to improve funding for sport fish restoration and recreational boating safety. The fund consists of two accounts. The Sports Fish Restoration Account is administered by the Fish and Wildlife Service of the Department of Interior, and the Boat Safety Account is administered by the U.S. Coast Guard.

The Boat Safety Account is financed by tax revenues from the Highway Trust Fund based on U.S. Treasury estimates of the proportion of gasoline tax revenue attributable to motorboat use. For FYs 1989 and 1990, revenues to the Boat Safety Account were capped at the level of \$60 million per year. An amount equal to one-half of the Boating Safety Fund is available to the Secretary of Transportation for expenditures out of the operating expenses account of the Coast Guard for services provided by the Coast Guard for recreational boating safety, including services provided by the Coast Guard Auxiliary. The remaining funds are primarily allocated to the states for their use in paying salaries and in acquiring facilities, equipment, and supplies for boating safety education and law enforcement. For FY 1990, a total of \$27.4 million was allocated to the states.

At the request of the Coast Guard, we performed audits of the Boating Safety Program in 12 states. Our findings include: (1) state accounting systems do not have adequate internal controls to ensure costs are accurate, properly supported, and eligible for reimbursement; and (2) procedures have not been established to minimize the time elapsing between the drawdown of funds from the Treasury and disbursement by the states. The Coast Guard has been responsive to our findings and has initiated corrective actions. We plan to issue a consolidated report to the Coast Guard in June 1991. The consolidated report will also address the Coast Guard's overall administration of the Boating Safety Program. We will provide a copy of our final audit report for your committee's further consideration of this matter.

AIRPORT AND AIRWAY TRUST FUND**Expenditures - Airport Construction Materials Conformance**

Based upon a nationwide audit of 38 airport grants in five regions, we concluded that the Federal Aviation Administration (FAA) approved pavement acceptance systems which did not ensure that airport pavements were constructed in conformance with approved design criteria.

For \$429.4 million of paving costs included in the audit period, projection of our sample results provided 90-percent confidence that \$140.1 million (plus or minus \$43 million) of paving material was out of tolerance with one or more required FAA quality control or acceptance tests, and \$357.1 million (plus or minus \$73.6 million) was insufficiently tested.

Of 33 asphalt pavement projects reviewed, 49.9 percent of the asphalt pavement accepted was not sufficiently tested using Marshall design criteria, which are related to pavement performance, and 31.7 percent of the asphalt pavement accepted was out of tolerance for one or more of the design criteria.

Further, FAA's approved acceptance system for portland cement concrete (PCC) pavement was not adequate to ensure that PCC pavements met the design criteria for flexural strength and thickness. Finally, at least six laboratories employed by the construction sponsors used incorrect test procedures or provided inaccurate test reports.

On September 24, 1990, we issued a final audit report, which is included at Tab "B." In response to our report, FAA established a new special grant provision requiring quality control plans. In addition, FAA agreed to: (1) reduce Federal participation for paving materials found to be outside specified tolerances; (2) provide technical training to FAA and sponsor personnel; and (3) require statistical acceptance systems for PCC.

The FAA is still considering our recommendations to: (1) allow Federal participation to be earned only for paving material found acceptable based upon sufficient testing; (2) use Marshall asphalt design criteria as a basis for asphalt acceptance; (3) identify specific criteria for FAA review of sponsor pavement construction contracts; (4) establish a schedule of FAA onsite inspections; (5) require FAA inspection reports to identify the amount and value of insufficiently tested or out-of-tolerance material at the time of inspection; and (6) institute a program to independently verify laboratory acceptance tests. We will provide your committee a copy of FAA's final response to those six pending audit recommendations.

Expenditures - FAA Major Systems Acquisitions

FAA major systems acquisitions are funded through the Airport and Airway Trust Fund. Within the FAA, management of major system acquisitions has been a recurring weakness cited by both the OIG and the General Accounting Office (GAO). The OIG has been active in performing reviews of specific system acquisitions while coordinating closely with GAO to maximize our results. These reviews have shown that FAA needs to provide management oversight in requirements determinations, acquisition planning, specification development, contract award, preproduction testing, contract modifications, and contract administration. The OIG has issued reports recently on FAA's Computer Resources Nucleus project (Tab "C"), Remote Maintenance Monitoring System (Tab "D"), and Runway Visual Range (Tab "E") procurements, all of which cited major system acquisition problems.

FAA has requested \$3 billion in budget authority for FY 1992 to pursue facilities and equipment acquisitions to support the National Airspace System Plan.

In response to the Secretary of Transportation's 1989 report on internal controls, FAA acted on the Office of Management and Budget's direction by issuing a report dated August 3, 1990, which identifies deficiencies to assist FAA management in developing an action plan for improving major systems acquisitions. This Special Report on Selected Major Systems Acquisitions is enclosed for the Committee's review of FAA's corrective action plan (Tab "F").

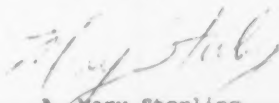
Also enclosed is a list of 17 recent GAO reports on FAA Major Systems Acquisitions (Tab "G").

FAA's management of major systems acquisitions should be an oversight issue for the Congress.

Because your letter soliciting this information was cosigned by Chairman Pickle of the Subcommittee on Oversight, I am responding to him by separate letter with identical content and enclosures.

I hope that this information is responsive to your request and I look forward to working with you and your staff throughout the 102nd Congress on these and other matters of mutual concern.

Sincerely,



A. Mary Sterling
Inspector General

Enclosures

UMTA GRANTS MANAGEMENT

Background

During Fiscal Years (FY) 1989 and 1990, UMTA obligated \$2.3 billion in Highway Trust Funds on grants for a wide variety of mass transit projects. These grants are awarded to about 700 state and local grantees. Section 3 Discretionary Grant Program and Section 9 Formula Grant Funds are used to construct new transit projects, such as light rail, refurbish existing rail systems, or purchase buses. Formula grant funds are also used to support the operation of mass transit systems. UMTA currently oversees over 5,100 active grant projects having unexpended balances of over \$8.3 billion. During FYs 1990-91, UMTA funding will provide an estimated \$5.9 billion in sections 3 and 9 grants. This includes \$2.7 billion for section 3 from the Highway Trust Fund and \$3.2 billion for section 9 from the General Fund.

Grants Management Oversight

During the 1980's, UMTA limited its oversight of grantees, relying heavily on the grantee to properly manage its grant programs. However, in the past 3 fiscal years, the OIG has found that UMTA's grants management process is not working well.

Problems Identified

The OIG has issued reports citing deficiencies in UMTA's oversight of grants management. These reports address Peak Vehicle Requirements, including School Service and Premature Bus Retirement, Bus Service Life, and other grant oversight practices.

A. Peak Vehicle Requirements

When approving funds for the purchase of new buses, UMTA does not ensure that these funds are used economically and efficiently. First, UMTA does not strictly enforce the 20-percent spare ratio when approving funds for the purchase of new buses. In addition, UMTA's policies for determining the need for buses are weak, because they (1) do not consider the length of peak service times or the volume of passengers and amount of revenue generated during each peak service run, (2) do not sufficiently define the methodology used to calculate bus needs, and (3) do not require recovery of Federal funds when grantees change their bus operations from that promised as a basis to obtain Federal subsidy.

What Was Found

Our audits in 10 UMTA Regions disclosed that (1) \$92 million of capital assistance was used by transit authorities to purchase buses in excess of needs, (2) buses valued in excess of \$74 million were being used to provide nonconforming school tripper service, and (3) \$4.2 million was owed to UMTA for the Federal interest in buses removed from revenue service prematurely.

Other OIG audits have shown that transit authorities were providing exclusive bus service to students using UMTA-funded buses which was contrary to Federal regulations. For example, our audit in 1987 and a followup audit in 1990 in one UMTA Region showed that student tripper services were not published in public bus schedules, buses contained improper route markings and were not always open to the public. In another UMTA Region, our audit in 1987 and a followup audit in 1989 also showed that a local transit authority was also providing transit service with vehicles purchased with \$17 million in Federal funds for the exclusive use of students.

Status of Report

We issued a series of regional reports and we are in the process of issuing a consolidated report on Peak Vehicle Requirements. Of the \$92 million of excess buses, UMTA regional officials agreed to recover less than \$3 million or about 3 percent. These officials resolved, or plan to resolve, the balance of the excess buses by approving spare ratios in excess of 20 percent, allowing excess buses to be used for additional or expanded revenue service and permitting grantees to remove older but serviceable buses from their active fleet. UMTA regional officials also declined to increase their monitoring of grantee bus needs. UMTA regional officials did require the nonconforming transit systems to publish school tripper routes, but they did not address the uneconomic use of expensive mass transit buses to provide school service. UMTA officials were very responsive in recovering the \$4.2 million we identified as owed to UMTA for the Federal interest in buses retired prematurely; however, they were not receptive to recommendations to increase their monitoring of grantee bus retirement. We anticipate issuing the consolidated report on Peak Vehicle Requirements by the end of January 1991. We will provide a copy of the consolidated report to you as soon as it is finalized. If, after reading the consolidated report, you would like copies of the regional audit reports, we will provide them to you.

B. Bus Service Life

UMTA subsidizes the replacement of mass transit buses based on the criterion that they have achieved a service life of 12 years or more without determining whether these buses could provide additional service economically. This 12-year criterion is not supported by studies performed by UMTA's consultants or our audit analysis. Additionally, UMTA has not established adequate internal controls to ensure that amounts due UMTA for buses removed prior to achieving UMTA's prescribed minimum service are promptly identified and repaid.

What Was Found

UMTA did not require grantees to submit cost data to justify that 3,317 bus replacements valued at \$375 million (Federal share) were cost effective. An OIG 1985 audit and this 1990 audit confirmed that mass transit buses already achieve an average service life in excess of 15 years despite Federal financial incentive to replace them after only 12 years. UMTA could realize recurring life cycle cost savings of about \$198.5 million by extending its required minimum service life for standard size transit buses to 15 years. UMTA could further reduce its bus capital assistance costs by requiring grantees to support bus replacement grant applications with cost/benefit analyses justifying the economic need to replace buses that are age eligible for UMTA assistance. Additional life cycle savings of \$116.5 million could be achieved if the cost justification requirement resulted in extending the actual service life of replaced buses by only 1 year--from 15 to 16 years. We also found that UMTA was due a refund of \$2,169,240 for its interest in the remaining useful life of 512 buses retired prematurely.

Status of Report

The draft report is in process; therefore, audit comments have not been received from UMTA at this time. The final report should be issued this spring.

C. Other Grant Oversight Practices

The GAO has also issued reports citing deficiencies in UMTA's oversight of grants management. For example, grantees were not using grant funds for project purposes or according to Federal requirements even though grantees certified that they would properly manage Federal funds. In its report GAO/RCED-89-94, GAO reported that UMTA's oversight of a local transit authority's compliance with Federal procurement requirements was not adequate. In a related report, GAO/RCED-90-41, GAO also reported that documentation supporting section 3 grant awards was not maintained in UMTA's grant approval process.

Material Internal Control Weaknesses

In DOT's 1989 FMFIA report, UMTA included the need for increased grants management oversight as a material internal control weakness. Although UMTA's program level continues to exceed \$3 billion annually, staffing has fallen from 565 in FY 1981 to 415 in FY 1990. Additional staff would improve UMTA's ability to review project proposals, conduct triennial reviews of grantees and increase general oversight of grantees' adherence to Federal requirements. Based on this FMFIA report, UMTA requested additional resources in FY 1991 and 14 FTEs were approved. Additionally, UMTA plans to perform a staffing analysis and has requested 31 additional FTEs for FY 1992.

GAO REPORTS ON FAA MAJOR SYSTEMS ACQUISITIONS

<u>Date</u>	<u>Report #</u>	<u>Title</u>
Jul 90	IMTEC-90-49	Inadequate Planning Increases Risk Of Computer Failures In Los Angeles
May 90	IMTEC-90-38	Major Data Processing Contract Should Not Be Awarded
May 90	IMTEC-90-37	Ineffective Management Plagues \$1.7 Billion Radar Program
Apr 90	T-IMTEC-90-9	FAA Encountering Problems In Acquiring Major Automated Systems
Apr 90	T-IMTEC-90-6	FAA Encountering Problems In Acquiring Major Automated Systems
Apr 90	T-RCED-90-66	Issues Related to FAA's Fiscal Year 1991 Budget Request
Apr 90	RCED-90-146FS	Status of FAA's Effort to Modernize the System
Feb 90	T-RCED-90-32	Issues Related to FAA's Modernization Of The Air Traffic Control System
Jan 90	IMTEC-90-8	FAA's Use and Management of Communications Resources
Oct 90	T-RCED-90-2	Meeting of Aging Aircraft Challenge: Status & Opportunities
Oct 89	RCED-90-17	FAA Needs to Resolve Questions Involving Use of New Radars
Sep 89	IMTEC-89-62	FAA Needs to Implement Effective Testing Program
Jul 89	IMTEC-89-63	Computer Capacity Shortfalls May Impair Flight Safety
Jun 89	IMTEC-89-39	Voice Communications System Continues To Encounter Difficulties
Jun 89	RCED-89-92	FAA's Implementation Of Modernization Projects In The Field
Apr 89	RCED-89-122FS	Information On FAA's Research, Engineering And Development Program
Nov 88	RCED-89-7	Continued Improvement Needed In FAA's Management Of The NAS Plan

[The following documents accompanied this letter and have been retained in the Committee files:

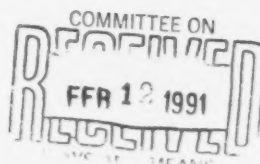
- U.S. Department of Transportation, Office of Inspector General,
"Summary Report on the Audit of Airport Construction Materials
Conformance," September 24, 1990.
- U.S. Department of Transportation, Office of Inspector General,
"Audit of the Software Conversion Requirements for the Federal
Aviation Administration's Computer Resources Nucleus Project,"
June 1, 1990.
- U.S. Department of Transportation, Office of Inspector General,
"Report on the Audit of Remote Maintenance Monitoring System,"
January 12, 1990.
- U.S. Department of Transportation, Office of Inspector General,
"Report on the Audit of Runway Visual Range Equipment,"
November 9, 1989.
- U.S. Department of Transportation, Federal Aviation
Administration, "Special Report on Selected Major Systems
Acquisition Internal Controls," August 3, 1990.]



THE SECRETARY OF THE TREASURY
WASHINGTON

February 3, 1991

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515



Dear Mr. Chairman:

This is in response to your letter of December 19, 1990 concerning hearings by the Committee on Ways and Means to review Federal programs within the Committee's jurisdiction. The enclosure to this letter contains five suggested areas for your consideration when conducting these hearings. If you should have any questions regarding these areas please call Linda M. Combs, Assistant Secretary (Management), on 566-8585.

I look forward to working with you during the 102nd Congress to resolve these issues and bring greater efficiency and effectiveness to Federal programs.

Sincerely,

Nicholas F. Brady

Enclosure

ENCLOSURE

**Suggested Areas
for Potential Congressional Review
of Efficient Administration and Effectiveness of Programs**

1. **Financial Management Service (FMS) Governmentwide Payments:** FMS believes that it can produce payments faster, more reliably, and at a lesser cost than other government agencies. FMS is currently examining, at the request of the House Appropriations Committee, the ramifications of combining all or any part of the Government's payment functions, now delegated to other departments and agencies (e.g., Defense), within FMS.
2. **Increased use of Cooperative Administrative Support Units (CASUs):** For commonly needed administrative services, CASUs are being developed at multi-tenant Federal buildings and complexes throughout the Nation. Agencies should explore extending these cross-servicing arrangements, where feasible, to improve the economy of Federal operations.
3. **Reduce duplicative reporting to Congress:** Each year Treasury expends valuable resources in preparing reports containing similar information for Congress. Efficiencies could be achieved by reducing either duplicative or similar requests and the resulting reports through various means such as having a central clearing house for requests.
4. **Procurement Reform:** The following procurement deregulation initiatives could be pursued in order to streamline the procurement process. (1) Allow service contracts and blanket purchase agreements to cross fiscal years and thus reduce the unnecessary workload peak in agency procurement offices which occurs at the end of each fiscal year. (2) Exempt small purchases of under \$25,000 from the requirements of the Davis Bacon and Service Contract Acts. Presently, there is considerable administrative burden on both the Government and the contractor in complying with these regulations for such small dollar procurements. (3) Raise the small purchase threshold to \$50,000 for commercial, off-the-shelf products if procured competitively. This would discourage customized specifications, encourage completion and reduce procurement lead time. (4) Allow electronic transmission of proposals and contracts which should improve accuracy, save time and resources.

- 2 -

5. **Paperwork Reduction Act, Records Management System:** Federal agency records management systems are still largely paper-based. When automation efforts have been undertaken to eliminate the paper-based systems, the result has frequently been to create another layer of records, albeit electronic, to be managed in addition to the paper records used to support the electronic record entries. The efforts have often been undertaken by individual agency components without being coordinated with, or integrated into, other records management systems within the agency and/or other agencies. Generic records management systems related to the personnel records management function, accounting and budget functions, procurement functions, etc., should be developed and implemented in a coordinated and integrated manner within and across the various Federal agencies.


THE COMMISSIONER OF CUSTOMS

 February 22, 1991 **RECEIVED** WASHINGTON, D.C.

MAR 1 1991

Dear Mr. Chairman:

I am responding to your letter of December 19, in which you requested Customs views on issues which should be addressed by the Ways and Means Committee during the 102nd Congress.

The Customs Modernization Act is a major proposal, designed to modernize Customs laws under two categories: facilitation of cargo and people, and enforcement of and compliance with Customs laws. Included under these two categories are electronic processing, national entry processing, regulations relating to entry and clearance of vessels, binding rulings, record keeping for Customs purposes, and a host of other subject areas.

Last week, Customs representatives talked with the Trade Subcommittee staff about the theme of the Modernization Act, and the goals Customs hopes to achieve with its enactment. The process of working with the Subcommittee will continue.

I trust this communication is responsive to your letter of December 19. If you have any further questions, please contact me.

Sincerely,

 Carol Hallett
Commissioner

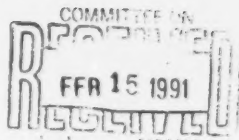
The Honorable
J.J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515



INSPECTOR GENERAL

 DEPARTMENT OF THE TREASURY
 WASHINGTON

FEB 12 1991



The Honorable Dan Rostenkowski
 Chairman
 Committee on Ways and Means
 House of Representatives
 Washington, DC 20515

Dear Mr. Chairman:

This is in response to your December 19, 1990, letter signed jointly with the Chairman of the Subcommittee on Oversight. In that letter you requested our views on the programs and issues that should be addressed during the Committee's review of the efficiency and effectiveness of Federal programs within its jurisdiction.

As stated in our January 17, 1991, acknowledgement letter, we met with members of your staff on January 10, 1991, to discuss how we would respond to your request. During that meeting, we gave your staff copies of our last two Semiannual Reports and our Fiscal Year 1991 Audit Plan and indicated that our response would address the issues we have audited in the past that would be of interest to the Committee, and issues of similar interest included in the Audit Plan. The enclosed document is a summary of those issues that we extracted from the Reports and Plan given to your staff on January 10, 1991. In it we describe some of the more significant audits pursuant to Inspector General Act requirements to report significant problems, abuses, deficiencies, and recommendations for corrective actions. Because the enclosure describes only selected significant findings and planned audit work, they should not be considered representative of the conditions in the Department and its bureaus.

A similar response is being provided to Chairman Pickle. Please contact me on 566-6900 if you have any questions concerning our reply.

Sincerely,

Donald E. Kirkendall
 Inspector General

Enclosure

OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF THE TREASURY
RESPONSE TO REQUEST BY HOUSE COMMITTEE
ON WAYS AND MEANS

This document represents those problem areas that the Office of Inspector General (OIG) has focused its attention during the past year and those that the OIG plans to review during Fiscal Year (FY) 1991. OIG audits were either used by management to help identify weaknesses, or were conducted to evaluate the programs and activities reported by the Department as high risk.

The first section focuses on high risk areas within the Department of the Treasury. The next section identifies critical deficiencies that were identified in numerous audits performed by the OIG and weaknesses identified during audits performed by the Internal Revenue Service's (IRS) audit staff, and the Federal Managers' Financial Integrity Act (FMFIA) process. Finally, the last section provides the Committee with issues that will be addressed during implementation of the OIG's FY 1991 Audit Plan.

HIGH RISK AREAS

Four high risk areas were identified during the Department's FY 1990 FMFIA process. These four areas include:

- o management of IRS delinquent debt,
- o Customs' fund control and follow-up to collect receivables,
- o data integrity problems, and
- o management oversight for systems development.

The OIG, General Accounting Office (GAO) and IRS' internal audit staffs have performed numerous audits identifying problems and improvements concerning these high risk areas.

Management of IRS Delinquent Debt

Controls over the IRS tax administration and collection system need to be improved. Significant revenue enhancements could be realized from improvements in collecting delinquent debt and in the reduction in growth of accounts receivable.

Revenue Enhancements from Improvements
in Collecting Delinquent Debts

Resource constraints caused IRS to cease compliance action through the Automated Substitute for Return Program (ASFR) on almost one fourth of 1.1 million cases in which taxpayers failed to file returns. This resulted in a potential revenue loss of \$190 million. Under the ASFR, IRS creates a substitute tax return from employer W-2 submissions for wage earners who fail to file tax returns. In response to audit recommendations, IRS increased staffing for this program by 100 staff years for FY 1990.

In addition, the audit estimated that \$52.9 million in failure-to-pay penalties will not be assessed for the current ASFR inventory due to inequitable penalty handbook procedures. IRS penalizes taxpayers who voluntarily file delinquent balance-due returns more than taxpayers processed under substitute for return procedures. IRS agreed with the recommendations to take a consistent approach and will determine if a legislative change is needed to achieve equitable treatment of all taxpayers.

Slow the Growth of
Accounts Receivable

Accounts receivable at IRS have grown from \$18 billion in 1981 to more than \$70 billion. There also are problems in accounting for and controlling these receivables. A July 1990 progress report said that IRS has a comprehensive action plan and that top-level executive oversight is being provided to ensure timely and effective implementation of the plan. IRS auditors are reviewing accomplishment of the action plan and determining whether accounts are reported in accordance with generally accepted accounting principles and Comptroller General accounting standards. Also, two national audits of accounts receivable have been initiated to review large dollar accounts being held in the queue (no active collection action).

Customs' Funds Control and Follow-up
to Collect Receivables

Prior audits as well as the Department's FMFIA process have reported funds control problems at Customs. In the FY 1989 FMFIA process, Customs assured the Secretary that these problems had been corrected.

The OIG has several activities underway or planned which will address this area. A final report will be issued shortly concerning Customs' handling of its FY 1987 appropriation. This report will cite a number of funds control problems that need to be addressed. We intend to conduct several audits in FY 1991

that will evaluate the adequacy of Customs' funds control and budgetary processes; FMFIA review process, which will include a determination that actions taken in response to deficiencies identified by FMFIA reviews were implemented effectively; action to improve the reliability of its accounting system; and actions in response to audit reports issued by the OIG, Customs former internal audit staff, and the GAO.

Collections

The OIG is monitoring Customs' actions to improve its accounting system and bring it into conformance with the Comptroller General's standards. The OIG had also planned a review of Customs' accounts receivable but has suspended audit work pending the results of an extensive GAO review of Customs' accounts receivable. The OIG meets periodically with GAO to coordinate efforts in this area and will schedule follow-on work if necessary.

Ongoing and planned OIG audits will also address the following accounts receivable and revenue collection matters at Customs:

- o Customs' fines, penalties, and forfeitures program, and
- o collection of passenger user fees by Customs.

Misappropriation of Funds Report

Treasury is leading a 13-agency audit of "M" accounts, which is scheduled to be completed during the second quarter of FY 1991. Merged ("M") account balances are available for payment of previously incurred obligations and contains all appropriations that have expired where there is still an obligation on the books.

The audit concluded that procedures at various bureaus were generally inadequate to monitor unliquidated balances in the "M" accounts. In addition to misstating account balances, failing to periodically review unliquidated obligations increases the risk of not detecting improper payments against the "M" accounts.

Tests showed, for example, that Customs was accounting for \$4 million in obligations which could be deobligated and obligation documents for an additional \$1.6 million could not be located. In addition, the audited bureaus did not give unliquidated obligation balances sufficient management attention during the FMFIA review process, and they reported incorrect balances on year-end closing statements, impairing the reliance

that can be placed on these statements.

Departmental managers have initiated corrective actions to address similar problems which may exist in other Treasury bureaus. This includes action on recommendations to consolidate guidance relating to annual reviews of "M" accounts and other expired accounts in a Department-wide directive, to ensure that expired accounts are reviewed adequately in future FMFIA review processes, and to instruct Treasury bureaus that certification of year-end closing statements will be viewed as certifying that an annual review of unliquidated balances has been made.

Ports and Districts

OIG auditors performed 17 audits of Customs' ports and districts to determine whether activities and programs were implemented in accordance with prescribed regulations, policies, and procedures. Specific objectives included determining whether revenues were properly and promptly processed and accounted for and whether funds, property and other assets were safeguarded.

In audits of the Cleveland and Nogales (Arizona) District Office's operations, for example, OIG auditors found that in-bond shipments (i.e., goods that are moved within the U.S. without the immediate payment of duty) had not been sufficiently controlled and/or properly monitored. In Cleveland, shipments due for arrival up to 2 years previously remained unaccounted for and, therefore, Customs' control over imported merchandise was weakened and potential revenue was jeopardized. In response to recommendations, management provided training on resolving the backlog, directed supervisors to resolve such discrepancies on a current basis, and issued 29 liquidated damages cases totaling nearly \$243,000. In Nogales, OIG auditors found a report of overdue in-bond shipments listing 1,724 manifests with an estimated value of \$13.3 million. Moreover, there were inadequate controls over collections. In response to recommendations, District management provided employee training and improved procedures for processing in-bond merchandise, warehouse entries, user fee collection, and foreign merchandise control in the import lot.

An audit of the Philadelphia District's operations, for example, found that the District had not promptly processed fines, penalties, and forfeiture cases, thus delaying the collection, mitigation, or cancellation of approximately \$32 million in penalties or liquidated damages and denying the Government the timely use of an estimated \$192,000 in revenues. As a result, the OIG has planned an audit of Customs' penalty program in FY 1991.

Data Integrity Problems

The Department identified data integrity as a management control problem because of major problems in Treasury accounting systems, inability to reconcile accounts timely, and other systems inefficiencies. First, property management is of concern at Customs. Second, an audit of cash receipts in the Bureau of the Public Debt's (BPD) Washington office identified numerous system deficiencies.

Seized Property

Customs is in the process of correcting problems in managing seized and abandoned property for which it had a contract with a private firm. Allegations of improprieties in the seized property program resulted in a 1988 grand jury probe into possible contractor fraud. Subsequently, a Congressional Committee reported in February 1990 that there was inadequate oversight of the program by Customs and that the single nationwide contract provided little incentive for the contractor to control costs. Customs then convened a task force which produced a number of recommendations including a revamped contract and Customs' control of an automated property management system. An OIG audit of Customs' seized property program is planned for FY 1991.

BPD System Inefficiencies

An audit of cash receipts in BPD's Washington office locations identified a number of weaknesses in internal controls and security over cash and currency received for the purchase of Treasury securities and Bureau administrative transactions. BPD's Washington office locations received and deposited over \$790 million in FY 1989.

Extended audit tests did not identify any instances of fraud. However, weaknesses in controls and security have increased the vulnerability of cash receipt activities to fraud, waste, and abuse, and contributed to delays in depositing funds. Control problems included dating deposit tickets in advance, maintaining duplicate accounting logs for cash receipts, and the absence of cash receipt activity reconciliations. In addition, duties were not properly separated in two divisions and supervisory reviews of the cash receipts process were not being made. Security weaknesses included using unsecured mail containers and a 9-month delay in changing combinations for safes and secured containers. BPD has initiated corrective actions to implement all our recommendations.

Management Oversight of Systems Development Activities

Automated data and accounting systems at several of Treasury's bureaus were developed without adequate management oversight, user involvement in the development process, and proper integration with other systems. Inadequate oversight of systems development efforts was a major factor contributing to the data integrity problems and, in addition, had adversely affected revenue collection and budgetary controls.

Improving SDLC Processes to Minimize Costs

A 1989 FMFIA report stated that considerable progress had been made in improving System Development Life Cycle (SDLC) deficiencies and that additional plans were in progress to improve systems development efforts. Notwithstanding the progress which has been made, IRS internal auditors issued a Trend Analysis of System Development Activities for FY 1987-1989 in January 1990 which concluded that there is a need for continued management involvement in this area. This analysis summarized significant systems development audit findings over the past 3 years and offered additional recommendations for improving the management of the systems development process at IRS.

The Department's FMFIA report showed that problems also existed at Customs and Departmental Offices. Customs reported deficiencies in its procedures which did not allow necessary parties to be directly involved in the development of new automated systems. OIG and IRS internal auditors continue to take an active role in reviewing the design and development of individual information systems and significant modifications of existing systems.

A planned audit will evaluate the procedures, practices, and controls for designing and developing Treasury systems. Audit work is underway at the Financial Management Service (FMS) and will also cover activities at BPD and Customs. ADP system development projects frequently are not completed on time or within budget, and the resulting systems do not fully meet user requirements. These and other shortcomings can often be linked to inadequacies in the design and development process.

CRITICAL DEFICIENCIES

The Department reported in its FY 1990 FMFIA report that its most critical deficiencies, other than the high risk areas mentioned above, are:

- o blocked foreign assets,
- o Bank Secrecy Act/civil penalties,

- o financial systems for IRS,
- o pre-numbered collection documents in Customs, and
- o appropriate sanctions against importers.

The OIG has performed various audits in a number of these critical areas and plans other audits in the future.

Blocked Foreign Assets

In response to a request from the Assistant Secretary (Enforcement), OIG auditors evaluated the status of approximately \$5.2 million in "blocked" Iranian, Vietnamese, and Cambodian funds transferred from the control of Treasury's Office of Foreign Assets Control (OFAC) to the Department of State's Office of Foreign Missions in 1984. The audit found that, while State complied with OFAC-granted licenses, better stewardship of the funds and other property was needed. After the audit work began, State accelerated the payment of approximately \$3 million to OFAC, plus over \$2 million in back rent.

In response to recommendations, OFAC will include fund repayment procedures, reporting requirements, and identification of appropriate expenses in the licenses. OFAC is negotiating with the General Services Administration to have real estate appraisals performed free of charge. In addition, OFAC is developing a memorandum accounting system for funds controlled by the Department of State.

Bank Secrecy Act/Civil Monetary Penalties

Audits at Departmental Offices' Office of Financial Enforcement (OFE), IRS, Customs, and the Office of the Comptroller of the Currency (OCC) identified several areas where implementation of the Bank Secrecy Act (BSA) could be improved. For example, OFE had a backlog of 200 civil penalty referrals and cases for noncompliance with BSA's reporting and record keeping requirements; and IRS needs to improve processing and security controls to ensure that all BSA documents are complete and correct, processed on time, and adequately safeguarded. In addition, Customs needs to improve methods for controlling, submitting, processing, and correcting BSA documents; and examiners at the Comptroller of the Currency have inconsistently reported BSA violations identified during bank examinations.

In response to the audit findings, OFE, IRS, Customs, and the Comptroller of the Currency plan or have taken appropriate corrective actions.

Financial Systems for IRS

IRS internal auditors have conducted numerous reviews of the various phases of the design, development, and procurement of information systems at IRS.

Recent reports covered planning and contracting activities for the Integrated Management System, which will replace the management and cost system used by IRS service centers, and the controls of the Automated Examination System, which will automate the examination of income tax returns. In addition, IRS is acting on several audit recommendations to improve the management of all IRS systems development procurement initiatives.

Pre-Numbered Collection Documents in Customs

A material internal control weakness was indicated by Treasury's FMFIA process in which millions of unused pre-numbered documents could not be accounted for following annual inventories. Over the last five years, Customs voided 4.8 million documents without evidence in the revenue collection system that any funds were actually collected. Although it could not be determined if the unaccounted for pre-numbered documents actually resulted in fraud, the lack of effective control indicates the potential for fraud exists. Remaining corrective actions include replacing old pre-numbered forms with new forms, notifying the importing community of the change, and destroying the old forms. Also, Customs needs to program, test, and implement a new module in the collection system which would significantly improve controls over pre-numbered forms. Finally, hand-held computers will be explored as a substitute for use of pre-printed serially numbered forms. All corrective actions are scheduled for completion by August 31, 1991.

Appropriate Sanctions Against Importers

A material internal control weakness was indicated by Treasury's FMFIA process related to Customs' ability to collect debts from or press claims against importers or sureties, or take sanctions in appropriate cases where obligations have not been met. Custom's ability to take sanctions against importers is adversely affected by the limited information available to employees for evaluating bond liability and by the existence of multiple importer identification numbers which could lead to circumvention of sanction efforts. Some systems changes have been accomplished and others are planned over a two-year period to improve current importer file records and assign new identification numbers. New information will be provided in FY 1991 in the Automated Commercial System for analysis of bond liability and sufficiency.

ISSUES/THEMES BEING ADDRESSED BY OIG IN FY 1991

Nearly 75 percent of OIG audit resources are earmarked for audits of major control issues. This includes audits of Treasury banking and thrift industry activities and three of the areas which Treasury has reported as its most serious management control problems: data integrity, management oversight of systems development activities, and funds control and collection activities. The remaining 25 percent of audit resources will be spent on mission-related and administrative programs of Treasury bureaus. The latter audit work will focus on important Treasury programs and operations which are of significant interest or concern for management. Audits of these areas should provide management with valuable "early warning" of potential or actual problems.

The independent reviews of a broad range of subjects included in the OIG's FY 1991 plan will provide assurance that Treasury programs, activities, and functions are operating efficiently, effectively, and in compliance with applicable requirements and also as a basis for recommending improvements. The audit issues we plan to address in FY 1991 are as follows:

Financial and Cash Management

About 33 percent of OIG audit resources will be spent on financial management and cash management audits. Audits will be conducted on the Department's Working Capital Fund (which pays for telephone and other central services); Government trust funds and other accounts for which FMS provides accounting, investment, and redemption services; and the FMS policy of using deposits of public money in financial institutions to pay for banking services from those institutions.

Bureau Mission

Another 33 percent of audit resources is earmarked for audits of mission-related programs and operations, primarily at Customs, Office of Thrift Supervision (OTS), and OCC. Customs audits will include reviews of the program for managing seized and abandoned property, foreign attache' operations, and the Aerostat Program (which uses radar to support drug interdiction efforts). OTS mission-related work includes reviews of OTS bank information systems, thrift institution applications processing, enforcement actions, and selected aspects of the examination process. Audits at OCC will include reviews of the licensing of national banks, the examination process, the supervision of problem banks, and the shared national credits program for reviewing large loans that are shared by two or more banks.

Revenue Enhancements

Resources allocated to revenue enhancements amount to about 16 percent. Revenue enhancement work will include audits of the Alcohol, Tobacco and Firearms' (ATF) collection of tobacco excise taxes, taxes on imported alcohol, and weapons transfer taxes, as well as controls over tax exempt alcoholic beverages. At Customs, revenue enhancement work will include audits of air passenger user fees, the Customs penalty program, and the liquidation process for determining amounts of duties owed on merchandise entries.

Security and ADP Systems

Resources allocated to security and ADP systems are approximately 8 percent. ADP systems audits will include a multi-bureau audit of the management control over systems development activities and audits of the design and development of individual systems at the Bureau of Engraving and Printing (BEP), BPD, FMS, and Mint. Security audits will evaluate personnel security at Customs, controls over postage stamps at BEP, and the Department's use of Financial Disclosure Statements.

Procurement/Contracting

Resources allocated to procurement and contracting audits are approximately 10 percent. Contract and procurement audits will include pre-award and cost-incurred audits for contracts over \$500,000. In addition, multi-bureau audits of contract administration and closeout activities and of controls over advisory and assistance service contracts will be completed.

[The following documents accompanied this letter and have been retained in the Committee files:

- U.S. Department of the Treasury, Office of Inspector General,
"Semiannual Report to the Congress," April 1, 1990 - September 30, 1990.
- U.S. Department of the Treasury, Office of Inspector General,
"Semiannual Report to the Congress," October 1, 1989 - March 31, 1990.
- U.S. Department of the Treasury, Office of Inspector General,
"Internal Audit and Oversight Plan," Fiscal Year 1991.]

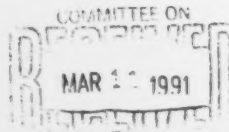


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

MAR 8 1991

The Honorable Dan Rostenkowski
Chairman
House Committee on Ways and Means
1102 Longworth Building
Washington, D.C. 20515



Dear Mr. Chairman:

This letter is in response to your request of mid-December regarding possible topics for oversight hearings during the coming year. Your focus on specific programs is wholly appropriate; my understanding is that our staffs have been in regular contact regarding a wide variety of traditional topics along the lines you mention.

I would, however, like to take the liberty of suggesting another avenue that you may wish to pursue in your ongoing oversight of IRS activities. After eighteen months on the job, I am convinced that we must transform tax administration during the 1990's. We have it within our collective grasp to dramatically reduce the burden on taxpayers, generate significant additional revenue through enhanced voluntary compliance, and achieve substantial quality-driven productivity gains throughout the IRS.

The two pillars supporting this vision are Tax Systems Modernization and what we refer to as Compliance 2000. The primary engines driving change are our efforts in quality and strategic planning. These four areas transcend specific program activities and are not traditional areas of Congressional oversight. Nonetheless, I believe that they are the keys to the future of tax administration; our success in these efforts will determine whether we deliver on our promise in the years ahead. I have attached very brief summaries of what these efforts entail; it may well be that one or more hearings on what we hope to accomplish, and our overall progress to date, would be appropriate.

Please contact Gayle Morin, my Assistant for Legislative Liaison, on 566-4071 if there are any questions.

Sincerely,

Fred T. Goldberg

Enclosure

Internal Revenue Service Initiatives

Tax Systems Modernization

The IRS is in the midst of a comprehensive effort to modernize our outdated and obsolete computer and telecommunications systems. Coupled with fundamental changes in the way we do business, Tax Systems Modernization will bring reduced taxpayer burden and frustration, cost savings and productivity gains. Tax Systems Modernization is too important to fail. It is a long-term effort that will require significant capital investment and continued support from and oversight by the Administration and Congress.

Compliance 2000

In an ongoing initiative we call Compliance 2000, we are looking at ways to maximize voluntary compliance in a way that minimizes burdens on the private sector and costs to the federal government. Direct enforcement (Examination, Collection, Criminal Investigation) is a means to achieve this end, but so are education, outreach, simplification, legislation, and regulatory changes. In many cases, these latter tools may be more effective, less burdensome and less costly. Compliance 2000 is structured so that we will look at taxpayer needs and behavior. As we identify groups of taxpayers that share common characteristics relevant to tax compliance and administration, we will devise comprehensive strategies to improve voluntary compliance while minimizing taxpayer burden and cost to the government. As these strategies are implemented, their success will be measured against appropriately defined baselines. Compliance 2000 strategies will assure that we make best use of our enforcement resources in the years ahead. Along with Tax Systems Modernization they are the keys to transforming tax administration during the 90's.

Planning: A Blue Print for Management

We have firmly in place a planning system that points us in the direction we want to go;

- It sets goals across the organization;
- It specifies annual milestones toward achieving those goals in our annual business plan;
- It establishes critical success factors to see if milestones are being met; and
- It assesses progress across the organization through a structured business review process.

Quality of Key Services Provided to Taxpayers

One of our goals is to become a total quality organization responsive to taxpayer needs. We have entered into a joint agreement with the National Treasury Employees Union to work together for this end. This effort works at two levels -- to do the million little things right and to set measurable, achievable goals for the organization as a whole. We have an obligation to deliver the best products we can at the lowest cost possible. To do this we are building an organization that recognizes that quality flows from a diversified workforce, from employees who are empowered to put quality first.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JAN 23 1991

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

Chairman Dan Rostenkowski
Committee on Ways and Means
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter of December 19, 1990 to Administrator Reilly regarding the Committee's upcoming hearings to review the efficiency and effectiveness of Federal programs. As the Environmental Protection Agency's Assistant Administrator for Administration and Resources Management, and the Agency's Senior Internal Control Official, Mr. Reilly asked me to respond to your inquiry.

Both Administrator Reilly and I share your concerns about the efficient administration of Federal programs as well as the effectiveness with which they are achieving their stated goals. Today, the question is no longer whether we will take action on environmental programs, but how. This new context, taking shape at a time of scarce resources and competing priorities, makes the pursuit of environmental goals in the most economically efficient manner, all the more important.

As limits are placed on the resources available to solve environmental problems, some programs may not meet their goals and others may be delayed. This was most evident in our report to the President and Congress on December 21, 1990, discussing significant weaknesses in our environmental programs, as required by the Federal Managers' Financial Integrity Act. I have enclosed a copy of this report, which identifies the 10 programs where weaknesses exist.

You will note that the report discusses the problems that we found, and the actions that are underway to correct them. The areas discussed in the report include:

1. Superfund: We have made considerable progress in implementing corrective actions identified in our 1989 study of the entire Superfund program, but work remains to be done. The target date for completion of corrective actions is September 30, 1991.

2. Chemical Testing: There has been a lack of effectiveness and productivity in chemical testing. Without sufficient test data on chemicals, EPA is impeded in taking appropriate regulatory action. By September 1992, EPA expects to complete corrective actions with the issuance of the multi-chemical test rule for glycidols.
3. R&D Extramural Resources: Decreased funding and limited workyears impede management of EPA's research and development (R&D) extramural resources. By June 1992, EPA plans to complete corrective actions by integrating R&D extramural resource budget requirements for FY 1993 and re-analyzing the management of extramural resources.
4. R&D Facilities: The condition of R&D labs inhibits EPA's ability to generate high quality scientific and technical information. By June 1991, EPA expects to have developed budget initiatives to address its critical needs and a methodology to accomplish required repairs.
5. R&D Equipment: EPA's scientific and technical equipment is becoming obsolete faster than funds for replacement can be made available. By September 1994, EPA will have revised its forecast needs, prepared budget initiatives, and developed a new five-year plan for FY 1995 - 1999.
6. Audit Follow-Up: EPA's audit follow-up practices are inadequate to ensure that corrective actions resulting from audit recommendations are tracked and completed. By September 1991, EPA expects to have remedied this weakness by implementing several actions including a quality assurance program for information on audit tracking and reviews of offices' follow-up practices.
7. Pesticides' Antimicrobial Program: Inadequate data integrity assurance process, systems support, and enforcement follow-up may exist in the antimicrobial program. By September 1992, EPA plans to have implemented corrective actions to remedy any problems identified.
8. R&D Laboratory Operating Expenses: Shortage of resources for R&D laboratory operating expenses has adversely affected activities essential to operating the labs. By June 1991, EPA plans to have integrated lab operating expense requirements into the planning and budgeting process.
9. Pesticides Disposal: External influences on the disposal program can disrupt implementation of the program and management of the program resources. By September 1992, EPA expects to have implemented its corrective action plan and remedied any problems identified.

10. Integration of Enforcement Data: Enforcement activities have been hampered by the inability to associate data on compliance and enforcement activities from multiple data bases. Implementation of data linkage programs are in progress. By the June 1991, EPA will have completed corrective action by assigning facility and company identification numbers in the programs.

To further improve the implementation of our management controls program in FY 1991, we are drawing on the benefits of the tools of Total Quality Management. We will also continue to enhance senior managers' understanding and use of the management integrity program to increase management effectiveness and efficiency.

I hope that you find this information useful. Should you or the Committee staff have questions about EPA's management controls program, please contact me.

Sincerely yours,


Charles L. Grizzle
Assistant Administrator

Enclosure

The following document accompanied this letter and has been retained in the Committee files:

[U.S. Environmental Protection Agency, letter and supporting documents from William K. Reilly, Administrator to the President reporting on implementation of the Federal Managers' Financial Integrity Act, December 21, 1990.]



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

RECEIVED

JAN 16 1991

JAN 11 1991

Ways and Means
Subcommittee on Oversight
THE INSPECTOR GENERAL

Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of December 19, 1990, requesting ideas on the programs and issues that should be addressed during a series of hearings to be conducted by the Committee on Ways and Means. We would like to highlight two areas that we believe must be addressed for EPA to conduct its programs and operations in a more effective, efficient and economical manner.

The two areas discussed below were derived from an overview of the common and recurring conditions identified by audits, investigations and evaluations over time. Both areas were discussed in our latest Semiannual Report to the Congress.

1. **SUPERFUND:** EPA needs to take action to improve the efficiency and effectiveness of the Superfund program. EPA has been criticized for not cleaning up the nation's hazardous waste sites fast enough to meet congressional and public expectations.

The Superfund program was created by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). The act provided a \$1.6 billion trust fund for removal and remedial actions, liability, compensation, cleanup, and emergency response for hazardous substances released into the environment and uncontrolled and abandoned waste sites. On October 17, 1986, the Superfund Amendments and Reauthorization Act of 1986 (SARA) was enacted. It provided \$8.5 billion to continue the program for 5 more years.

The law was extended an additional three years and the taxing authority for the trust fund was extended an additional four years by the Omnibus Budget Reconciliation Act of 1990.

Significant actions are needed to improve the cleanup of Superfund sites. During fiscal 1990, EPA focused its attention on implementing the numerous recommendations resulting from the Administrator's comprehensive review of the Superfund program. While considerable progress has been made, Office of Inspector General (OIG) audits and investigations continue to show that significant improvements are still needed.

OIG audits continue to show a pattern of repetitious studies of the same problems, partial remedies, and inadequate involvement by community representatives, responsible parties and State officials. Additionally, some contractors have been placed in positions where they, rather than EPA, have made decisions regarding the extent of cleanup actions to be taken.

EPA efforts to evaluate innovative technology have been seriously hindered by problems locating sites and issuing reports on completed projects. High demonstration costs and lack of Federal funding assistance discouraged technology developers from participating in EPA's program.

2. INTERNAL CONTROLS AND FINANCIAL MANAGEMENT: Agency reviews of internal control and financial management systems have not always successfully identified weaknesses in those systems. In the past the Agency has not recognized internal control vulnerabilities until reported by General Accounting Office (GAO) or the OIG.

Overall, EPA continues to struggle with basic internal controls and inaccuracies in its financial management system. While there has been considerable activity devoted to improving the Agency's overall performance in these areas, EPA's results have been less than anticipated.

A recent OIG review of the Agency's Federal Managers' Financial Integrity Act (FMFIA) process showed that only a few of the internal control reviews reported by the Agency actually included any tests of actual transactions. Additionally, many EPA offices had not performed any review of such Agency administrative systems as time and attendance, overtime, etc.

In financial management area, OIG audits continued to point out significant weaknesses in the Agency's systems. For example, the Agency's ability to recover costs from responsible parties has been hampered because Superfund accounts receivable were not being recorded in EPA's financial records. Further, on an overall basis the Agency was unable to close its accounting records

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for fiscal 1989 until April 1990, seven months after the close of the fiscal year, because of problems converting to a new accounting system and the lack of complete and accurate reports. As a result, EPA officials could not reconcile the difference between U.S. Treasury disbursements and EPA's accounting records. The difference amounted to \$26.8 million. Even today EPA program managers complain they can not get the timely financial information needed to manage their programs.

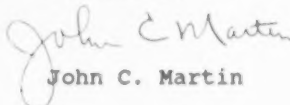
Over the years, the estimate of overall costs to implement EPA's new Integrated Financial Management System (IFMS) has risen steadily from a 1986 estimate of \$3.8 million to the latest estimate of \$17.7 million. Currently, complete IFMS implementation is not scheduled until fiscal 1994, three years beyond the original scheduled completion date. Undoubtedly, problems in their financial management system will hamper EPA in its efforts to produce the financial statements required under the recently passed Chief Financial Officer legislation.

EPA has recognized the importance of internal controls and the need to strengthen its system of financial management. EPA has established the Senior Council on Management Controls, chaired by the Deputy Administrator, to provide policy oversight and review of EPA's systems of internal administrative and programmatic controls.

Although the Agency responded positively to each of our reports, and has undertaken positive steps to correct the identified problems, the OIG intends to continue performing frequent audits in these areas to determine whether further steps are needed to correct internal control and financial management problems.

Should your staff have any questions, please have them contact Kenneth A. Konz, Assistant Inspector for Audit, on 382-4106.

Sincerely,


John C. Martin



Pension Benefit Guaranty Corporation

2020 K Street, N.W., Washington, D.C. 20006-1806

Office of the Executive Director

February 15, 1991

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable J.J. Pickle, Chairman
Subcommittee on Oversight
Committee on Ways and Means
Washington, DC 20515

Dear Mr. Chairman Rostenkowski and Mr. Chairman Pickle:

On January 11, 1991, I met with you, Chairman Pickle, and outlined the issues the PBGC is now grappling with in its single-employer plan termination insurance program. I appreciate the opportunity for that meeting. This letter will discuss those issues in response to your letter of December 19, 1990, requesting us to identify problems affecting the PBGC that could be mitigated or solved through new legislation.

One of the reasons the PBGC has fared as well as it has in the past few years is your interest in this program and the significant reforms in 1986 and 1987. In addition, our victory in the Supreme Court upholding our authority to restore the LTV plans has also been of enormous help in preventing abuse of the program. For instance, it helped us to finally settle the Wheeling-Pittsburgh case.

We are using the reforms and the Supreme Court victory to the maximum extent possible. Our strategy is to use these tools to encourage companies to better fund their pension plans, discourage termination, and maximize our recoveries if there is a termination.

We recently established a new group within the PBGC to research and analyze more intensely data on large underfunded plans and their sponsors. The group will help us in our

- 2 -

negotiations with sponsors of terminating plans and enable us to act earlier to protect better the interests of the insurance program and participants.

Major challenges nonetheless lie ahead because of longstanding pension underfunding in weak companies and threats to PBGC's priority claims in bankruptcy. Because of financial problems in the airline industry, PBGC will report a large loss for FY 1990. Depending on its severity, the recession could bring additional claims from other companies with underfunded pension plans. Recent legislative reforms, including our bankruptcy claims, minimum funding rules, and the variable rate premium, have not had as large an impact on reducing underfunding as we had hoped.

PBGC's main source of recoveries in insufficient terminations is its priority claims in bankruptcy proceedings. These have been challenged in the courts. Unfortunately, in the LTV bankruptcy proceedings, the bankruptcy judge has ruled against PBGC's statutory authority to establish the amount of its underfunding claims and assert a priority claim for plan underfunding up to 30 percent of employer net worth. The LTV bankruptcy court also ruled that pension contributions coming due while a company is in bankruptcy are not administrative expenses, and thus need not be paid until a plan of reorganization is confirmed. If this ruling is accepted, not only will PBGC's recoveries be further reduced, but many more pension plans will terminate while their sponsors are in bankruptcy, because the plans will run out of money.

We have informed the Judiciary Committees of our bankruptcy problems, including the need for PBGC to have the option of becoming an ex officio member of creditors' committees as well as the need to clarify and improve the status of our claims. Once we have formulated specific proposals and cleared them through the Administration, we would like to present proposals to the Judiciary Committees. The bankruptcy status of our claims also may be a way to address such problems as shutdown benefits and benefit liberalizations that occur shortly before termination. The support of the tax and labor committees will be important to the success of our efforts with the Judiciary Committees.

Funding is a second area that might have to be revisited. The 1987 reforms that instituted the deficit reduction contribution--a higher minimum contribution for underfunded plans--also contained latitude with respect to valuation interest rates that can greatly diminish the effect of this deficit reduction contribution.

With the likely terminations of some very large plans, we are examining how the program might be simplified in such

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areas as guarantees, asset allocation, administration of terminated plans, and premium collection.

Another way to attack the problem of underfunded plans that pose significant risk to the PBGC is through pricing of the insurance. In light of the 1990 increase, our preference is not to increase the premium, but we will review the structure with the goal of better reflecting the level of risk.

I would also like to mention that the PBGC invited the General Accounting Office to audit the Corporation's financial statements for the fiscal year ended September 30, 1990. Their preliminary report confirms my view that PBGC needs to make significant changes in our internal control and accounting practices. PBGC is working to correct deficiencies that will be noted in the GAO's report.

At the same time that we are exploring how to modify or restructure the program and accounting systems to better carry out our statutory mandate, the Congressionally-chartered National Academy of Public Administration (NAPA) is examining whether PBGC itself can be restructured to more effectively meet our statutory mission. NAPA is evaluating PBGC in light of the experiences of other government-owned corporations and of the pension insurance schemes of other countries. NAPA has indicated that the final report will be completed in the spring.

Sincerely,


James B. Lockhart III

Attention

Charles Brain, Assistant Staff Director
Committee on Ways and Means

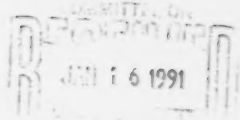
Beth Vance, Staff Director
Subcommittee on Oversight
Committee on Ways and Means

cc: Bill Archer
Committee on Ways and Means

Richard T. Schulze
Subcommittee on Oversight



UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 RUSH STREET
CHICAGO, ILLINOIS 60611



BOARD MEMBERS:

January 15, 1991

GLEN L. BOWER (CHAIRMAN)
C.J. CHAMBERLAIN (LABOR)
ANDREW F. REARDON (MANAGEMENT)

Honorable Dan Rostenkowski
Chairman, Committee on Ways
and Means
House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515-1308

Attention: Mr. Charles Brain

Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives
242 Cannon House Office Building
Washington, D.C. 20515-4310

Attention: Ms. Beth Vance

Dear Mr. Chairman and Mr. Pickle:

This is in reply to your joint letter of December 19, 1990, requesting our views on the programs and issues that the Committee on Ways and Means may wish to address in its hearings to review the efficiency and effectiveness of Federal programs within the Committee's jurisdiction. You specifically requested that we identify areas in which Federal funds are not being efficiently used and programs that are not effectively achieving their goals.

The primary function of the Railroad Retirement Board (RRB) is to administer comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families, under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. The purpose, or goal, of these programs is to provide an income to eligible beneficiaries that replaces earnings they no longer receive because of retirement, long-term disability, death, unemployment, or sickness. In order to more efficiently provide service and benefits to railroad workers and their families, the RRB also has administrative responsibilities for the payment of certain Social Security benefits which are coordinated with benefits payable under the Railroad Retirement Act and for railroad workers' Medicare coverage.

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Overall, the RRB has been successful in fulfilling its mission to provide timely benefits to those covered under the programs we administer, within the resources available to government agencies. Concurrently, in recent years the RRB has implemented extensive railroad retirement, unemployment insurance, Medicare, and tax legislation. Railroad retirement beneficiaries expressed their confidence in the RRB through a 1989 client satisfaction survey, which showed that 88 percent of the respondents rated RRB service as good to very good and 90 percent were satisfied with the manner in which their most recent railroad retirement matter was handled. Nevertheless, RRB management recognizes the need to improve or expand on its activities in several areas, the most significant of which are

- Claims Processing,
- Debt Collection,
- Fraud Control,
- Tax Accounting,
- Trust Fund Integrity, and
- Information Systems.

The need for improvements or enhancements in the above areas was identified by the RRB as a result of on-going management initiatives, internal control reviews made by program managers pursuant to the Federal Managers' Financial Integrity Act, quality assurance reviews performed by our Bureau of Quality Assurance, and reviews made by RRB's Office of Inspector General. In April 1990, the Office of Management and Budget (OMB) conducted a 2-week on-site management review of the RRB, and in May 1990, issued a draft management report which includes specific recommendations for improvements in these areas. The RRB's most recent Federal Managers' Financial Integrity Act report, issued in December 1990, provides additional information on these and other areas that the agency has targeted for improvement.

Currently, the resources needed to adequately address these issues are being discussed with OMB. The RRB fiscal year 1992 budget submission included a request for additional full-time equivalent employees in fiscal year 1992 to help address these issues and other matters discussed with OMB as a result of its recent review of RRB operations. In the meantime, we continue to pursue improvement in each of these areas to the extent that resources permit.

Claims Processing

The RRB's mission is to pay benefits under the Railroad Retirement Act and the Railroad Unemployment Insurance Act to the right people, in the right amount, timely. While the client satisfaction survey showed a high level of satisfaction with the quality and timeliness of our handling of client claims, we recognize that we need to improve many facets of our program activities. The primary ones are discussed below.

- A backlog of casework involving post-retirement adjustments continues to exist in the retirement-survivor program. Although we have made progress in reducing the overall backlog levels, much more needs to be done. A concerted effort by a sizable number of skilled, experienced claims examiners would be needed to eliminate the backlog in the next few years. The chart shown in

-3-

Enclosure I provides details on backlogs in the retirement-survivor program from September 1988 through September 1990. It shows that by September 30, 1990, we had reduced the number of backlog cases to 162,580 from the September 1988 level of 273,386. For the past few years, we have established annual goals for reducing the backlogs and have closely monitored workload balances. Also, as shown on Enclosure I, we have added other categories of work to be formally tracked until they are reduced to normal workload balance levels. In addition, an RRB task force is reviewing the backlog categories and evaluating the feasibility of using legal or administrative means, such as waiver or application of a higher "tolerance" threshold in case adjustments, to expedite handling the backlog categories. This task force is also reevaluating the priorities for handling the backlog categories.

- Claims processing activities could be improved through a comprehensive effort of updating the retirement-survivor program claims operating manuals. This will require a significant commitment of skilled, experienced employees.
- The operations of the Railroad Retirement Board and the Social Security Administration (SSA) are, by law, closely coordinated with regard to earnings credits and benefit payments for those individuals who have worked under both programs. The RRB and SSA have exchanged earnings and benefit data for over 50 years using paper reports and computer printouts. Since late 1986, the feasibility of connecting the RRB to SSA's data network has been discussed with SSA to no avail. We believe, and OMB concurs, that direct access should be granted to improve the efficiency, effectiveness, and timeliness of data exchange.

We are working with OMB to obtain additional resources to reduce the backlogs to normal workload balance levels and update the claims processing manuals. We will also continue working with SSA officials to gain direct access to their data network.

The accuracy of benefit payments and claims work and the timeliness of initial benefit payments are important indicators of the effectiveness of program performance. The RRB measures the accuracy of payments and claims work through an ongoing statistically valid quality assurance sample of completed cases. The timeliness of initial payments is measured from the date the benefit application is filed at an RRB field office through the date the claim is processed for payment. The RRB has made improvements in timeliness while generally maintaining or improving accuracy levels. Enclosures 2 and 3 contain detailed accuracy and timeliness data for recent fiscal years. The RRB recognizes the need to improve in both performance categories and expects to through planned systems improvements, better technical training of claims examiners, improved instructions and procedures, and other management improvement initiatives.

Debt Collection

In our long-range financial management plans and internal control action plans, we have recognized that improvements in our debt collection program were needed. In November 1989, we implemented an automated accounts receivable system to enhance our debt collection capabilities by electronically generating billing notices and assessing interest and penalty charges. OMB also made some suggestions on debt collection activities in its draft management report. Areas where we are working with OMB to obtain additional resources to enhance our debt collection activities include:

- establishing a strong executive position reporting directly to our Chief Financial Officer to coordinate on a full-time basis all debt collection activities within the RRB and with other Government agencies and external organizations, to keep abreast of Government debt collection practices and developments, and to initiate new practices, as appropriate, within the RRB;
- expanding our use of debt collection agencies and the income tax offset program;
- eliminating the backlog of unemployment insurance program cases requiring the establishment of accounts receivable; and
- working toward collecting debts by salary offset and by offset against other Federal payments where possible.

Fraud Control

The RRB is working with OMB to obtain additional resources to extend its automated wage matching program to additional States to check on earnings by unemployment and sickness insurance and disability beneficiaries. Although the RRB plans to automate as many matches as are cost-effective, the scheduled implementation dates are dependent upon resource availability and cooperation from the States. The RRB has contracted with 13 States covering about 50 percent of all rail employees to perform these automated wage matches and has initiated contact with the remaining States to determine their willingness and ability to participate in the program now or in the future.

The RRB is also initiating a method to help ensure the validity of medical evidence used to support payment of short-term sickness insurance benefits and is seeking additional resources to increase the processing and investigation of checks that are uncashed by railroad retirement annuitants.

Tax Accounting

Under the Railroad Retirement Solvency Act of 1983, all railroad retirement annuities became taxable beginning with tax year 1984. Within a short time, the agency developed an entirely new system to account for benefit payments by tier component and transaction date. Although the system was in place in time to

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release tax statements in January 1985, as required by law, the system was not fully completed. While work on the system continued, subsequent legislative changes enacted in 1986 and 1989 required extensive revisions to the agency's partially developed tax system.

Four internal quality assurance reports, requested by our Chief Executive Officer and issued in late 1988 and 1989, documented significant problems with the tax accounting system. Steps were begun immediately to improve the accuracy, quality and timeliness of tax statements. However, to fully implement the improvement program and bring tax accounting into full compliance with applicable laws and regulations, additional resources are required. We are working with OMB to obtain additional resources to be able to reduce the backlog of individual record corrections and corrected tax statements (and maintain balances at normal workload levels) and to implement improved system controls. Ultimately, we may also have to redesign the tax accounting system and modify the systems that feed it tax information. A special group will evaluate the system and provide a redesign plan -- if needed -- and a resource estimate by September 30, 1991.

Trust Fund Integrity

The Internal Revenue Service (IRS) is responsible for the collection of railroad retirement taxes. The Financial Management Service of the Department of the Treasury is then responsible for depositing these taxes into accounts it maintains for the RRB.

To help ensure that the correct amount of taxes is credited to our accounts, the RRB performs a number of verification checks that have identified over \$154 million of additional funds that should have been (and subsequently were) deposited in the retirement trust funds. The RRB verification checks are based on information received from the IRS for large railroad employers paying taxes by wire transfer. Such payments represent about 94 percent of total railroad retirement tax deposits.

For several years, the RRB has been actively working with the IRS to establish procedures to obtain more complete information to better reconcile tax deposits. In its December 1989 report on its program to review and improve internal controls, the RRB noted a material weakness regarding the lack of sufficient information being received from the IRS to allow the RRB to verify the accuracy of railroad retirement payroll tax deposits. OMB, in its draft management report on the RRB, also suggested that the RRB obtain additional information from the IRS to fully reconcile the railroad retirement trust funds to ensure that all tax receipts are collected and are being credited in a timely manner to the proper trust fund. OMB also suggested that the RRB complete reconciliations involving comparisons of compensation reported to the RRB for benefit purposes with compensation reported to the IRS for tax purposes at least 1 year before the statute of limitations runs out.

The IRS has started providing us with some of the needed information and, at our request, has started working with the Financial Management Service to design a working prototype system to receive tax payments electronically. Such a system will provide us with the needed detail information to reconcile deposits to our accounts and will increase trust fund earnings by speeding the deposit of funds into our accounts. With the additional information and additional staff, the RRB

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will expand and accelerate the reconciliation process for the \$4.1 billion in taxes collected annually for the retirement trust funds.

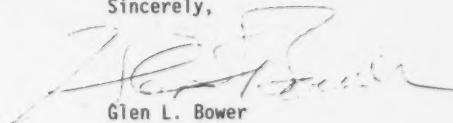
Another area of concern is non-compliance by some railroad employers in the payment of supplemental railroad retirement annuity taxes collected by the IRS. Non-compliance has been reported in several OIG audits of railroad employers, primarily involving the payment of supplemental taxes with regard to special payments such as holiday pay and vacation pay.

Information Systems

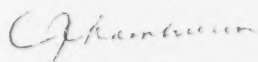
The RRB has adopted an automation strategy for developing new and enhanced systems which supports two of the areas discussed in this letter -- railroad retirement claims processing and taxation. This strategy encompasses both short and long-term objectives and is based on providing incremental improvements through a series of specific systems initiatives. Key elements of the automation approach include development of: an integrated database to house all railroad retirement benefit and taxation data; an on-line rate history system; a new taxation database correction system; and, new calculation and payment systems to automate various post-adjudication benefit adjustments. Several of these initiatives are currently underway, and others will be undertaken over the next few years. Also, we will be performing an in-depth analysis of the current taxation system to determine the extent to which that system and the systems from which it draws data need to be modified or replaced. In addition to these initiatives which focus on mainframe systems, the automation strategy also calls for development of microcomputer applications and expanded use of microcomputer technology.

Thank you for the opportunity to provide our observations. We will continue to strive for excellence in administering the RRB benefit programs. Please let us know if you need additional information.

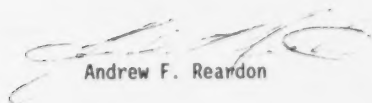
Sincerely,



Glen L. Bower



C. J. Chamberlain



Andrew F. Reardon

Enclosures

RRA Backlogs/Workloads

	Fiscal year ending balances			Fiscal year 1990		
	1988	1989		Additions	Dispositions	Ending balances
<u>Backlogs</u>						
Cost-of-living reviews	39,691	32,315		9,284	10,153	31,446
Automated earnings recomputation reviews	17,959	16,413		5,398	2,728	19,083
Cost-of-living rejects	10,402	7,466		4,929	3,958	8,437
Retirement adjustments	8,800	6,700		34,136	33,832	7,004
Social security adjustments	8,912	4,919		21,794	23,000	3,713
Computer system audits	2,453	598		4,011	4,241	368
Medicare maintenance	13,147	5,528		36,028	31,165	10,391
Public service pensions	2,023	0		0	0	0
Post-edit referrals 1/	169,999	120,472		51,650	89,984	82,138
Backlog Subtotal	273,386	194,411		167,230	199,061	162,580
1/ Post-edit referrals created February, 1988.						
<u>Additional workloads being monitored</u>						
Rail rejects/reviews		2,570		2,094	2,570	2,094
Last person service work		0		3,486	506	2,980
deductions		0				
Vested dual benefit		0		3,066	2,162	904
- recurring		0		577	0	577
- special minimum		0		949	0	949
- due but unpaid at death		0				
Cost-of-living reviews		3,320		2,310	1,517	4,113
survivor						
Cost-of-living rejects		1,779		1,505	804	2,480
survivor		12,012		574	1,332	11,254
RDP policing		19,681		14,561	8,891	25,351
Workload Subtotal						
Overall Totals	273,386	214,092		181,791	207,952	187,931

RETIREMENT PROGRAM OPERATIONSTIMELINESS OF PROCESSING INITIAL APPLICATIONSPercentage of Applications Paid a Final Benefit Rate
Within 90 Days of Filing

	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>
Age and Service	58.3	69.9	75.2
Spouse	57.2	55.5	64.5
Survivor	56.4	49.7	63.9

Percentage of Applications Paid an Interim Benefit Rate
Within 90 Days of Filing ^{1/}

	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>
Age and Service	95.6	94.5	97.0
Spouse	93.0	93.4	96.0

^{1/} Interim benefit rates are paid in approximately 52% of age and service cases and 45% of spouse cases.

RETIREMENT PROGRAM OPERATIONSPercentage of Case and Payment Accuracy
By Category of Action

	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
<u>Initial Age and Service</u>				
Case Accuracy Rate <u>1/</u>	80.20	82.80	87.20	90.40
Payment Accuracy Rate <u>2/</u>	96.98	99.11	99.38	99.35
<u>Initial Spouse</u>				
Case Accuracy Rate	-	80.60	86.70	86.40
Payment Accuracy Rate	-	97.90	98.58	98.20
<u>Post Adjudication -</u>				
<u>Age and Service</u>				
Case Accuracy Rate	-	-	77.40	75.40
Payment Accuracy Rate	-	-	99.69	99.72
<u>Post Adjudication - Spouse</u>				
Case Accuracy Rate	-	-	78.70	87.20
Payment Accuracy Rate	-	-	99.24	99.43
<u>Initial Survivor</u>				
Case Accuracy Rate	-	-	65.70	74.60
Payment Accuracy Rate	-	-	98.70	98.60
<u>Post Adjudication - Survivor</u>				
Case Accuracy Rate	-	-	81.20	85.00
Payment Accuracy Rate	-	-	99.42	98.96

1/ The case accuracy rate measures the percentage of cases that do not contain a material error. A case contains a material error if it contains (1) an incorrect payment totalling \$5.00 or more at the time the payment is corrected, (2) an incorrect payment of less than \$5.00 which totals 1% of the monthly annuity rate, or (3) any situation in which a non-entitled benefit is paid.

2/ The payment accuracy rate measures the percentage of dollars paid correctly. For initial cases, the percentage is calculated using the dollars paid and payable on the annuity beginning date. For post adjudication cases, the percentage is calculated using dollars paid and payable in the month of the award.

APPENDIX

The following is a listing of supporting documents submitted but not reprinted in this report. The documents have been retained in the Committee files, and are available for the use of Members of the Committee and their staffs. For additional copies of these documents, contact the agency named in the listing.

- U.S. Department of Health and Human Services, Office of Inspector General, "Cost-Saver Handbook: The Red Book," Summer 1990.
- U.S. Department of Health and Human Services, Office of Inspector General, "Program and Management Improvement Recommendations: The Orange Book," Winter 1990/91.
- U.S. Department of Health and Human Services, Office of Inspector General, "Semiannual Report," April 1, 1990-September 30, 1990.
- U.S. Department of the Interior, Office of Inspector General, "Audit Report: Drainage Protection Program," September 1990, Report No. 90-100.
- U.S. Department of the Interior, Office of Inspector General, "Audit Report: The Endangered Species Program," September 1990, Report No. 90-98.
- U.S. Department of the Interior, Office of Inspector General, "Audit Report: Geothermal Resources Program," January 1990, Report No. 90-34.
- U.S. Department of the Interior, Office of Inspector General, "Audit Report: Inspection and Enforcement Program and Selected Related Activities," November 1989, Report No. 90-18.
- U.S. Department of the Interior, "Secretary's Annual Statement and Report to the President and the Congress," December 1990.
- U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," October 1990.
- U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," April 1990.
- U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," October 1989.
- U.S. Department of the Interior, Office of Inspector General, "Semiannual Report," April 1989.
- U.S. Department of Labor, Office of Inspector General, "Semiannual Report," April 1-September 30, 1990.
- U.S. Department of the Transportation, Federal Aviation Administration, "Special Report on Selected Major Systems Acquisition Internal Control," August 3, 1990.
- U.S. Department of the Transportation, Office of Inspector General, "Audit of the Software Conversion Requirements for the

- Federal Aviation Administration's Computer Resources Nucleus Project," June 1, 1990.
- U.S. Department of the Transportation, Office of Inspector General, "Report on the Audit of Remote Maintenance Monitoring System," January 12, 1990.
- U.S. Department of the Transportation, Office of Inspector General, "Report on the Audit of Runway Visual Range Equipment," November 9, 1989.
- U.S. Department of the Treasury, Office of Inspector General, "Internal Audit and Oversight Plan," Fiscal Year 1991.
- U.S. Department of the Treasury, Office of Inspector General, "Semiannual Report to the Congress," April 1, 1990-March 31, 1990.
- U.S. Department of the Treasury, Office of Inspector General, "Semiannual Report to the Congress," October 1, 1989-March 31, 1990.
- U.S. Environmental Protection Agency, letter and supporting documents from William K. Reilly, Administrator, to the President reporting on implementation of the Federal Managers' Financial Integrity Act, December 21, 1990.
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